MEETINGS SCHEDULED FOR JUNE

THURSDAY, JUNE 23, 2011

Regular Board Meeting
1:00 p.m.

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101
State Street Conference Room - First Floor

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration June 23, 2011.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A

MINNESOTA HOUSING FINANCE AGENCY
BOARD MEETING
Thursday, June 23, 2011
1:00 p.m.

State Street Conference Room - 1st Floor
400 Sibley Street
St. Paul, MN

1. **Call to Order.**
2. **Agenda Review.**
3. **Approval of the Minutes.**
   A. Regular Board Meeting of May 26, 2011.
4. **Chairman's Report.**
5. **Commissioner's Report and Introductions.**
6. **Audit Committee:**
   None.
7. **Program Committee:**
   None.
8. **Finance Committee:**
   None.
9. **Action Items:**
   A. Summary Review:
   1. Approval, Loan Modification, Section 8 Program
      - Hillside Homes, Spring Valley.
      - Southview Terrace, Hibbing.
      - Todd 27, Long Prairie.
      - Town Square Apartments, East Grand Forks.
      - Woodcrest Manor, Mora.
   2. Approval, Loan Modification, Section 8 Program and Preservation Affordable Rental Investment Fund (PARIF) Program
      - Matthews Park, Minneapolis.
   3. Approval, Commitment Extension, Economic Development and Housing Challenge (EDHC) Program
      - St. Anne's Senior Housing.

4. Approval, Selections, Community Activity Set Aside Program.

B. Discussion - General:

1. Post-Sale Report, Minnesota Housing Finance Agency Homeownership Finance Bonds, 2011 Series C (Mortgage-backed Securities Program) and Homeownership Finance Bonds, 2011 Series D (Mortgage-backed Securities Program).
2. Information, Environmental Scan.
3. Information, Indian Housing.

C. Discussion - Homes:

D. Discussion – Multifamily:

1. Approval, Selections, Family Homelessness Prevention and Assistance Program (FHPAP).
2. Approval, Amendment to 2010-2011 Affordable Housing Plan, Ending Long Term Homelessness Initiative Fund (ELHIF).

10. Review and Information Items.

A. Information, Fiscal 2012 Administrative Budget.

11. Other Business.

A. Approval, Request for Special Board Meeting.

12. Adjournment.

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING

Thursday, May 26, 2011

1:00 p.m.

State Street Conference Room - 1st Floor

400 Sibley Street, St. Paul, MN

1. **Call to Order.**

   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:03 p.m.

   Members Present: Messrs. J. Johnson and K. Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

   Minnesota Housing Staff Present: Commissioner Mary Tingerthal, Deputy Commissioner Patricia Hippe, Dave Acocella, Tal Anderson, Jeanette Blankenship, Dan Boomhower, Margaret Davies, Jessica Deegan, Joe Gonnella, Phil Hagelberger, Mike Haley, Bill Kapphahn, Karmel Kluender, Marcia Kolb, Julie LaSota, Katy Lindblad, Amy Long, Diana Lund, Carrie Marsh, Eric Mattson, Julie Ann Monson, Tonja Orr, John Patterson, Devon Pohlman, Leslee Post, Mary Rivers, Megan Ryan, Becky Schack, Kayla Schuchman, Nancy Slattsveen, Susan Thompson, Will Thompson, Ted Tulashie, Elaine Vollbrecht, Don Wyszynski.

   Others Present: Frank Fallon, Corey Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Tom O'Hern, Assistant Attorney General; Celeste Grant, Office of the State Auditor.

2. **Agenda Review.**

   There were no changes to the agenda.

3. **Approval of the Minutes.**

   A. Regular Board Meeting of April 28, 2011.

   Ms. Klinzing moved to approve the minutes as written. Mr. Johnson seconded the motion. The minutes were unanimously approved by voice vote.

4. **Chairman's Report.**

   There was no Chairman's report.

5. **Commissioner's Report and Introductions.**

   New staff and one intern were introduced. Commissioner Tingerthal introduced Dan Boomhower, Director of Human Resources; John Patterson introduced Jacqui Taylor, a Humphrey Institute Intern who will conduct a literature review of local housing assessments and create an assessment for local housing needs to be presented to the board at its August meeting; Terry Schwartz introduced staff accountant Mary Westerhaus; Diana Lund introduced Susan Thompson, a former employee who has returned to the Multifamily division. Commissioner Tingerthal provided an update to the Board regarding the Agency's response to the North Minneapolis tornado. She also shared that the Agency has announced the CHDO operating funds program to its stakeholders

The Commissioner shared that that on Friday, May 20, she and Agency Federal liaison Jim Cegla accompanied a staff member of Erik Paulsen's on a tour of Agency supported tax credit funded developments and noted that Rep. Paulson is a member of the Ways and Means Committee. The tour provided an important opportunity to acquaint Rep. Paulsen's staff on the uses of credits and bonds in providing affordable housing. The Agency has sent letters to Senators Franken and Klobuchar in support of continuing low income housing tax credits.

The Commissioner acknowledged an investigative report regarding HOME funded developments that have not been completed, noting that the time frame covered by the report was at the height of the economic crisis. HOME funds are an important funding component of the Agency's Affordable Housing Plan and provide critical resources for the development of affordable housing.

6. **Program Committee:**
   None.
7. **Finance Committee:**
   None.
8. **Audit Committee:**
   Chair Johnson reported that the Audit Committee had met prior to the regular Board meeting where members heard a presentation from LarsonAllen regarding the Agency's forthcoming audit and heard information provided by Gene Slater, CSG Advisors and Paula Rindels, Dorsey and Whitney, regarding Resolution No. MHFA 11-033 Authorizing Issuance and Sale of Minnesota Housing Finance Agency Homeownership Finance Bonds, 2011 Series C (Mortgage-backed Securities Program) and Homeownership Finance Bonds, 2011 Series D (Mortgage-backed Securities Program) and Resolution No. MHFA 11-034 Authorizing Issuance and Sale of MHFA Limited Obligation Note, Series 2011B Issuance of Note with Federal Home Loan Bank (FHLB). The Committee recommended both resolutions for approval. **MOTION:** Chair Johnson moved to approve the report of the Audit Committee. Mr. Joe Johnson seconded the motion. Upon voting, the following members voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto. **MOTION:** Chair Johnson moved to adopt Resolutions No. MHFA 11-033 and MHFA 11-034. Ms. Sanderson seconded the motion. Upon voting, the following members voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.
9. **Action Items:**
   A. **Summary Review:**
      9.A.(1). Approval, Selections, Community Activity Set Aside Program.
      9.A.(2). Approval, HOME Homeowner Entry Loan Program (HOME HELP) Property Inspector.
      9.A.(3). Approval, Commitment, Low and Moderate Income Rental Program and Flexible Financing for Capital Costs (FFCC) Program - Lakeville Court, Lakeville.
      9.A.(4). Approval, Commitment Modification and Extension, Economic Development and Housing Challenge (EDHC) Program- Longfellow Station Apartments.

9.A.(5). Approval, Commitment Extension, Preservation Affordable Rental Investment Fund (PARIF) Program - Redeemer's Arms, St. Paul.

9.A.(6). Approval, Commitment, Low and Moderate Income Rental (LMIR) Program - West View Estates, Plymouth.

9.A.(7). Approval, Waiver of Pre-Payment Prohibition - Boardwalk Apartments, Wayzata.

In response to a question regarding 9.A.(1), Mary Rivers defined limited production as production that is substantially less than projected and provided as an example a production estimate of 20 and completion of two. Ms. Rivers also stated that workforce housing in the Duluth area is intended for those who work downtown and reside in the neighborhoods near their worksites. Mr. Joe Johnson requested that item 9.A.1 be removed for separate voting. In response to a question regarding 9.A.(6)., Ted Tulashie stated that bus services operating in the suburban area provide transportation access to the West View Estates development. Ms. Klinzing stated her desire that the Agency look closely at transportation issues and consider that there are people for whom proximity to a major freeway is not beneficial because they do not have a vehicle. Auditor Otto stated that access to transportation is part of the principle of affordable housing. Commissioner Tingerthal stated that the language in the Qualified Allocation Plan was strengthened with regard to access to transit and the Plan incorporated different standards for metro and greater Minnesota communities in acknowledgement of the different resources available in different areas of the state. **MOTION:** Ms. Bostrom moved to approve item 9.A.(1) – Selections, Community Activity Set Aside Program. Ms. Klinzing seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto. Mr. Joe Johnson abstained. **MOTION:** Ms. Sanderson moved to approve items 9.A.(2) through 9.A.(7) and adopt Resolution No. MHFA 11-024: Resolution Approving Mortgage Loan Commitment Low And Moderate Income Rental (LMIR) Program And Flexible Financing For Capital Costs (FFCC) Program; Resolution No. MHFA 11-025: Resolution Approving Commitment Modification And Extension Economic Development And Housing Challenge (EDHC) Program; Resolution No. MHFA 11-026: Resolution Approving Mortgage Commitment Extension Housing Trust Fund Program, 501(C)(3) Non-Profit Housing Bonds Program And Preservation Affordable Rental Investment Fund Program; Resolution No. MHFA 11-027: Resolution Approving Mortgage Loan Commitment Low And Moderate Income Rental (LMIR) Program and Resolution No. MHFA 11-028: Resolution Approving Waiver of Prepayment Prohibition, Section 8 Program. Mr. Joe Johnson seconded the motion. Upon voting, the following members voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

B. Discussion - General:

9.B.(1). Discussion, Progress Report – Strategic Plan and Affordable Housing Plan

John Patterson provided a report on the progress that has been made towards the goals of the current Affordable Housing Plan. No action needed.

C. Discussion - Homes:

9.C.(1). Approval, Modification, Community Revitalization Fund Award: Minneapolis Rehab Support Program.

Mike Haley presented this request. Agency staff has worked with City of Minneapolis staff to identify a means of providing assistance to homeowners for remediation of tornado damage. It was determined that funds from a CRV award could be used for this purpose but would require Board approval. These funds will provide rehabilitation assistance to homeowners who are unable to obtain other funding due to a lack of equity in their homes. Mr. Haley explained that funding through the disaster fund is available only after a Federal disaster has been declared and can be used only after insurance and Federal funds have been applied. In consultation with the Governor's Office, the Agency sought legislation to which a rider could be added to waive the Federal disaster declaration for the use of Disaster funds but there was no appropriate legislation to which it could be attached. In the event a special session of the legislature is convened, Agency staff will again seek an opportunity to have the Federal disaster requirement waived. **MOTION:** Mr. Joe Johnson moved to approve the request. Ms. Klinzing seconded the motion. Upon voting, the following members voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

D. Discussion – Multifamily:

9.D.(1). Approval, Selection/Commitment, Housing Trust Fund (HTF) Operating Subsidy Supplemental Grants.

Amy Long provided information regarding the programs offered by Minnesota Housing that assist homeless and very low income persons and families. Commissioner Tingerthal acknowledged that there are not at this time appropriated funds for these programs for the next fiscal year but in the budget work accomplished by the legislature thus far, all three programs are funded at levels that support these requests. Ms. Long added that staff are hopeful that the initial projections will be approved and that these requests are based on those projections. Ms. Long stated that operating subsidy grants offset the low rents paid by very low income renters and allow owners to meet the operating expenses of the building which allows the housing to remain affordable for those with very low incomes. **MOTION:** Auditor Otto moved to approve this request and adopt Resolution No. MHFA 11-029: Resolution Approving Selection/Commitment Housing Trust Fund (HTF) Operating Subsidy Supplemental Grants. Ms. Sanderson seconded the request. Upon voting, the following members voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

9.D.(2). Approval, Funding Modifications, Housing Trust Fund (HTF) and Ending Long-Term Homeless Initiative Fund (ELHIF) Rental Assistance.

Ms. Elaine Vollbrecht presented this item for approval, noting that staff has worked closely with program administrators to determine the needed extension and that 12-month funding recommendations would be brought to the Board for its approval in September. **MOTION:** Ms. Klinzing moved to approve this item and adopt Resolution No. MHFA 11-030: Resolution

Approving Grant Amendment/Commitment - Housing Trust Fund (HTF) and Ending Long-Term Homelessness Initiative Fund (ELHIF) Program. Ms. Bostrom seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

9.D.(3). Approval, Selection/Commitment, Bridges and Bridges Ending Long-Term Homelessness Initiative Fund (ELHIF) Rental Assistance.

Ms. Carrie Marsh presented this item for approval. In response to a question from Ms. Klinzing, Amy Long shared that the duration of the funding terms are based on past awards and anticipated future funding. Ms. Sanderson commended the staff on their work in these areas. **MOTION:** Ms. Sanderson moved to approve this item and adopt Resolution No. MHFA 11-031: Resolution Approving Selection/Commitment Bridges and Bridges Ending Long Term Homelessness (ELHIF). Auditor Otto seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

9.D.(4). Approval, Selection, Low and Moderate Income Rental (LMIR) Program and Flexible Financing for Capital Costs (FFCC) Program - City Place Apartments, Minneapolis.

Ms. Susan Thompson presented this requested for the funding of the acquisition and adaptive reuse of a building in Minneapolis. **MOTION:** Auditor Otto moved to approve this request. Mr. Joe Johnson seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Klinzing, Sanderson and Auditor Otto. Absent: Ms. Bostrom.

9.D.(5). Approval, Selection, Low and Moderate Income Rental (LMIR) Program - Kimberly Meadow Townhomes, Plymouth.

Ms. Julie LaSota presented this request, noting that the development is close to transit and an elementary school. **MOTION:** Ms. Sanderson moved to approve this request. Auditor Otto seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

9.D.(6). Approval, Loan Modification, Capacity Building Revolving Loan Program - Greater Metropolitan Housing Corporation.

Ms. Julie LaSota presented this request to extend the term of a pre-development loan. Ms. LaSota stated that the proceeds of this loan are used by the Greater Metropolitan Housing Corporation to provide for affordable housing developer's short term financing needs and noted that GMHC has been using the funds in this manner for 30 years. **MOTION:** Ms. Bostrom moved to approve this request and adopt Resolution No. MHFA 11-032: Loan Modification And Extension Of Loan Term Non-Profit Capacity Building Revolving Loan Program. Ms. Klinzing seconded the motion. Upon voting, the following voted yes: Messrs. Ken Johnson and Joe Johnson; Mses. Bostrom, Klinzing, Sanderson and Auditor Otto.

10. Review and Information Items.

A. Information, Emergency Homeowners Loan Program.

Devon Pohlman provided to the board information regarding a Federal program that will provide loans to Minnesota homeowners at risk of foreclosure. Ms. Pohlman stated that there are more homeowners who qualify for loans than loans available and that the program would be oversubscribed. NeighborWorks is the program administrator and homeowners will be selected through a lottery system and a pre-application will be used to determine eligibility for the lottery. The program will assist homeowners with their monthly payments for up to two years. The loans will be made directly to homeowners, who will also receive counseling. Ms. Bostrom requested that program outcomes be shared with the Board when the information is available. No action needed.

B. Information, Risk Management Update.

This item was not reviewed at the meeting. No action needed.

11. Other Business.

None.

12. Adjournment.

Auditor Otto moved to adjourn the meeting. Ms. Bostrom seconded the motion. The meeting was adjourned at 2:55 p.m.

AGENDA ITEM: 9.A.(1)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Hillside Homes, Spring Valley - D1430
Southview Terrace, Hibbing - D0626
Todd 27, Long Prairie - D0710
Town Square Apartments, East Grand Forks - D0483
Woodcrest Manor, Mora - D1022

CONTACT: Leslee Post, 651-296-8277
leslee.post@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Approve modification of the first mortgage for Hillside Homes, Southview Terrace, Todd 27, Town Square Apartments and Woodcrest Manor. All of these developments were financed with bonds that were part of Rental Housing Bonds 2004 Series C economic debt refunding. With the refunding, the Agency's borrowing costs were decreased while the related mortgage loan interest rates were left unchanged. This created yield in excess of the amount allowed by the Internal Revenue Service (IRS); the excess yield was intended to be utilized as an asset management tool to stabilize troubled properties within the refunding bond issue and several mortgages within the bond issue have been assisted thus far. The most commonly executed method for assisting properties and achieving bond yield compliance is to reduce interest rates on the mortgage loans financed by the bond issue. The yield on the refunding bond issue must be in compliance with IRS regulations by the time the bonds mature (February, 2022). It is proposed that the mortgage loans for each of the five properties included in this board report be modified to (1) reduce the interest rate and (2) re-amortize the loans over either the existing term or an extended term. Southview Terrace also previously borrowed a deferred loan and an extension is proposed to make that loan coterminous with the first mortgage.

The Board previously agreed to permit loan modifications within Rental Housing Bonds 2004 Series C to be presented as summary review agenda items as long as no new funds were proposed for the properties.

FISCAL IMPACT:
Modification of the first mortgages will result in a cumulative loss of interest income in the amount of $1,051,444; however, the loans on these properties are associated with Rental Housing Bonds 2004 Series C, which is earning excess yield. Modification of the first mortgages is advantageous to the Agency in that we will be utilizing the excess yield deliberately created by the 2004 refunding for use as an asset management tool to stabilize troubled properties and will help to bring the Agency into yield compliance for IRS purposes.

Modification of the Southview Terrace AM loan will result in a delay of repayment of the principal balance and interest by three years.

MEETING AGENCY PRIORITIES:

☐ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☐ Work to Prevent and End Homelessness

ATTACHMENT(S):

- Hillside Homes Background
- Hillside Homes Resolution
- Southview Terrace Background
- Southview Terrace Resolution
- Todd 27Background
- Todd 27Resolution
- Town Square Apartments Background
- Town Square Apartments Resolution
- Woodcrest Manor Background
- Woodcrest Manor Resolution

Hillside Homes is a 37 unit 100 percent Section 8 senior development. The Minnesota Housing Finance Agency (Agency) financed Hillside Homes in 1979 with a mortgage amount of $842,221 at an interest rate of 6.5 percent with payments amortized over a 40-year term.

The development has been well maintained and has a history of a high occupancy rate; however low rents and increasing operating expenses have caused the net operating income to steadily decrease. The development is projected to have negative cash flow at December 31, 2011, with the debt coverage ratio at less than 1 to 1.

Staff is proposing to modify the first mortgage by:

- Reducing the interest rate from 6.5 percent to 2 percent.
- Extending the term from October 2019 to December 2021.
- Re-amortizing the outstanding balance over the new term.

The proposed modification will decrease total debt service by approximately $17,529 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency, and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In return for modification of the first mortgage, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2018) plus an additional 10 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $842,221 for permanent loan financing for a multifamily rental housing development known as Hillside Homes in Spring Valley, MHFA Development No. 1430 (the Development); and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

   a. Reducing the interest rate to 2 percent; and
   b. Extending the term from October, 2019 to December, 2021; and
   c. Re-amortizing the outstanding balance over the extended term.

2. The debt service savings resulting from the modification will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

3. Future partnership distributions will be limited to 15 percent of initial equity.

4. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 10 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

Southview Terrace is a family development consisting of 43 Section 8 units and 102 market rate units. The Minnesota Housing Finance Agency (Agency) financed Southview Terrace in 1977 with a mortgage amount of $3,098,538 at an interest rate of 6.75 percent with payments amortized over a 40-year term. The Agency also provided a $1,326,150 asset management (AM) loan in 1999 for substantial rehabilitation; the AM loan is due at maturity of the first mortgage.

The development has been well maintained but has a history of periodic high vacancies in the market rate units. Although occupancy has stabilized, increased operating costs, along with the inability to raise the Section 8 rents have caused the net operating income to steadily decrease. Currently the Section 8 rents are $70 - $100 below the rents collected for the market rate units.

The development has experienced negative cash flow for the past 10 years; the owner contributes an average of $20,000 per year to cover operating shortfalls. The development is projected to have negative cash flow at December 31, 2011, with the debt coverage ratio at less than 1 to 1.

Staff is proposing to modify the first mortgage by:

- Reducing the interest rate from 6.75 percent to 2 percent.
- Extending the term from June 2018 to December 2021.
- Re-amortizing the outstanding balance over the new term.

The proposed modification of the first mortgage will decrease total debt service by approximately $89,389 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In addition, staff is proposing to modify the AM loan by:

- Extending the term from June 2018 to December 2021 so that it remains coterminous with the first mortgage.

In return for modification of the first mortgage and AM loan, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2017) plus an additional 10 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 AND ASSET MANAGEMENT (AM) LOAN PROGRAMS

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $3,098,538 for permanent loan financing for a multifamily rental housing development known as Southview Terrace in Hibbing, MHFA Development No. 0626 (the Development); and

WHEREAS, Minnesota Housing subsequently provided an AM loan in the amount of $1,326,150; and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

   a. Reducing the interest rate to 2 percent; and
   b. Extending the term from June, 2018 to December, 2021; and
   c. Re-amortizing the outstanding balance over the extended term.

2. Agency staff will modify the terms of the AM loan by:

   a. Extending the term from June, 2018 to December, 2021.

3. The debt service savings resulting from the modification of the first mortgage will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

4. Future partnership distributions will be limited to 15 percent of initial equity.

5. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 10 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

Todd 27 is a 44 unit 100 % Section 8 family development. The Minnesota Housing Finance Agency (Agency) financed Todd 27 in 1980 with a mortgage amount of $1,265,597 at an interest rate of 7.25 percent with payments amortized over a 40-year term.

The development has been very well maintained and has a history of a high occupancy rate; however low rents and increasing operating expenses have caused the net operating income to steadily decrease. Although the development has not yet experienced negative cash flow, projections indicate negative cash flow will occur within the next 3 years.

Staff is proposing to modify the first mortgage by:

- Reducing the interest rate from 7.25 percent to 2 percent.
- Extending the term from April 2021 to December 2021.
- Re-amortizing the outstanding balance over the new term.

The proposed modification will decrease total debt service by approximately $22,563 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In return for modification of the first mortgage, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2020) plus an additional 10 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $842,221 for permanent loan financing for a multifamily rental housing development known as Todd 27 in Long Prairie, MHFA Development No. 0710 (the Development); and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

    a. Reducing the interest rate to 2 percent; and
    b. Extending the term from April, 2021 to December, 2021; and
    c. Re-amortizing the outstanding balance over the extended term.

2. The debt service savings resulting from the modification will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

3. Future partnership distributions will be limited to 15 percent of initial equity.

4. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 10 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

Town Square Apartments is an 81 unit 100 % Section 8 senior development. The Minnesota Housing Finance Agency (Agency) financed Town Square Apartments in 1979 with a mortgage amount of $2,758,501 at an interest rate of 7.25 percent with payments amortized over a 40-year term.

The development has been well maintained but has had a history of minor vacancy issues. In addition, restricted rent increases and increasing operating expenses have caused the net operating income to decrease. Although the development has not yet experienced negative cash flow, projections indicate negative cash flow will occur within the next 3 years.

Staff is proposing to modify the first mortgage by:

- Reducing the interest rate from 6.5 percent to 2 percent.
- Re-amortizing the outstanding balance over the existing term.

The proposed modification will decrease total debt service by approximately $41,880 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In return for modification of the first mortgage, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2019) plus an additional 10 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $2,758,501 for permanent loan financing for a multifamily rental housing development known as Town Square Apartments in East Grand Forks, MHFA Development No. 0483 (the Development); and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

    a. Reducing the interest rate to 2 percent; and
    b. Re-amortizing the outstanding balance over the existing term.

2. The debt service savings resulting from the modification will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

3. Future partnership distributions will be limited to 15 percent of initial equity.

4. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 10 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

____
CHAIRMAN

Woodcrest Manor is a 42 unit 100 percent Section 8 senior development. The Minnesota Housing Finance Agency (Agency) financed Woodcrest Manor in 1980 with a mortgage amount of $1,222,410 at an interest rate of 7.25 percent with payments amortized over a 40-year term.

The development has been well maintained and has a history of a high occupancy rate; however low rents and increasing operating expenses have caused the net operating income to steadily decrease. Although the development has not yet experienced negative cash flow, projections indicate negative cash flow will occur within the next 1 - 2 years.

Staff is proposing to modify the first mortgage by:

- Reducing the interest rate on the first mortgage from 6.5 percent to 1 percent.
- Re-amortizing the outstanding balance over the existing term.

The proposed modification will decrease total debt service by approximately $22,063 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In return for modification of the first mortgage, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2020) plus an additional 10 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $1,222,410 for permanent loan financing for a multifamily rental housing development known as Woodcrest Manor in Mora, MHFA Development No. 1022 (the Development); and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

    a. Reducing the interest rate to 1 percent; and
    b. Re-amortizing the outstanding balance over the existing term.

2. The debt service savings resulting from the modification will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

3. Future partnership distributions will be limited to 15 percent of initial equity.

4. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 10 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

____
CHAIRMAN

AGENDA ITEM: 9.A.(2)
MINNESOTA HOUSING BOARD MEETING
JUNE 23, 2011

ITEM: Matthews Park, Minneapolis - D0868

CONTACT: Leslee Post, 651-296-8277
leslee.post@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Approve modification of the first mortgage for Matthews Park. The development was financed with bonds that were part of Rental Housing Bonds 2004 Series C economic debt refunding. With the refunding, the Agency's borrowing costs were decreased while the related mortgage loan interest rates were left unchanged. This created yield in excess of the amount allowed by the Internal Revenue Service (IRS); the excess yield was intended to be utilized as an asset management tool to stabilize troubled properties within the refunding bond issue and several mortgages within the bond issue have been assisted thus far. The most commonly executed method for assisting properties and achieving bond yield compliance is to reduce interest rates on the mortgage loans financed by the bond issue. The yield on the refunding bond issue must be in compliance with IRS regulations by the time the bonds mature (February, 2022). It is proposed that the mortgage loan for the property be modified to (1) reduce the interest rate and (2) re-amortize the loan over an extended term. Matthews Park also previously borrowed a deferred loan and an extension is proposed to make that loan coterminous with the first mortgage.

The Board previously agreed to permit loan modifications within Rental Housing Bonds 2004 Series C to be presented as summary review agenda items as long as no new funds were proposed for the properties.

FISCAL IMPACT:
Modification of the first mortgage will result in a cumulative loss of interest income in the amount of $63,689; however, the loans on these properties are associated with Rental Housing Bonds 2004 Series C, which is earning excess yield. Modification of the first mortgage is advantageous to the Agency in that we will be utilizing the excess yield deliberately created by the 2004 refunding for use as an asset management tool to stabilize troubled properties and will help to bring the Agency into yield compliance for IRS purposes.

Modification of the Matthews Park PARIF loan will result in a delay of repayment of the principal balance by ten years.

MEETING AGENCY PRIORITIES:

☐ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☐ Work to Prevent and End Homelessness

ATTACHMENTS:

- Background
- Resolution

Matthews Park is a 24 unit 100 percent Section 8 family development. The Minnesota Housing Finance Agency (Agency) financed Matthews Park in 1977 with a mortgage amount of $633,715 at an interest rate of 7.5 percent with payments amortized over a 40-year term. The Agency also provided a $520,000 Preservation Affordable Rental Investment (PARIF) loan in 2005 for substantial rehabilitation; the PARIF loan matures in 2026.

The development has been well maintained and has a history of a high occupancy rate. It is located in a desirable location with high demand and has a strong, committed non-profit owner. With the PARIF loan the Agency received a commitment from the owner to remain in the Section 8 program for 10 years beyond the existing HAP contract; approval of this modification provides the Agency with an excellent opportunity to preserve the Section 8 for an additional 10 years. Repayment of the PARIF loan is deferred until expiration of the initial 10 year period (2026); staff proposes modifying the terms of the PARIF loan to extend repayment to the end of the proposed additional 10 year period (2036).

In addition, Staff is proposing to modify the first mortgage by:

- Reducing the interest rate from 7.5 percent to 0 percent.
- Extending the term from December 2017 to December 2021.
- Re-amortizing the outstanding balance over the new term.

The proposed modification of the first mortgage will decrease total debt service by approximately $24,737 annually and will ensure repayment of the principal portion of the first mortgage.

The entire amount of debt service savings resulting from the interest rate reduction will be deposited into a special escrow account held and controlled by the Agency and will be used to fund future improvements and/or operating deficits. The debt service saving escrow will not be included in the calculation of the allowable partnership distribution.

In return for modification of the first mortgage and PARIF loan, the owner will agree to remain in the Section 8 program or other Housing Assistance program, for the remaining term of the current Housing Assistance Payment contract (expiring in 2016) plus an additional 20 years.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING LOAN MODIFICATION
SECTION 8 AND PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAMS

WHEREAS, the Minnesota Housing Finance Agency (Agency) heretofore loaned $633,715 for permanent loan financing for a multifamily rental housing development known as Matthews Park in Minneapolis, MHFA Development No. 0868 (the Development); and

WHEREAS, Minnesota Housing subsequently provided a PARIF loan in the amount of $520,000; and

WHEREAS, the owner and Agency staffs have proposed an agreement to facilitate the continued operation of the Development based on the following terms:

1. Agency staff will modify the terms of the existing first mortgage by:

   a. Reducing the interest rate to 0 percent; and
   b. Extending the term from December, 2017 to December, 2021; and
   c. Re-amortizing the outstanding balance over the extended term.

2. Agency staff will modify the terms of the PARIF deferred loan by:

   a. Extending the term from October, 2026 to December, 2036.

3. The debt service savings resulting from modification of the first mortgage will be deposited into a special reserve account each month and will be used to fund future improvements and/or operating deficits. Funds from this account will not be made available for partnership distribution.

4. Future partnership distributions will be limited to 15 percent of initial equity.

5. Closing will occur by June 30, 2012.

NOW THEREFORE, BE IT RESOLVED:

Contingent upon Minnesota Housing obtaining an agreement by the Owner to remain in the Section 8 Program, or other Housing Assistance programs, for 20 years after expiration of the current HAP contract, provided that Section 8 or another Housing Assistance program is available, Minnesota Housing will modify the terms of the existing first mortgage on the above-described terms and conditions.

Adopted this 23rd day of June, 2011.

____
CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 9.A.(3)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: St. Anne's Senior Housing, Minneapolis – D3675

CONTACT: Kayla Schuchman, 651-296-3705
kayla.schuchman@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Adoption of a resolution extending the Economic Development and Housing Challenge (EDHC) Program commitment from June 30, 2011 to December 31, 2011 to allow for the performance of due diligence activities, coordination of repairs for recent tornado damage, and closing of the loan.

FISCAL IMPACT:
Extension of the funding commitment will have no fiscal impact.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENTS:
- Background
- Resolution

The Minnesota Housing (Agency) Board approved a commitment through the EDHC program to finance conversion of underutilized commercial space into two new affordable housing units at the St. Anne's Senior Housing development at its June 24, 2010 meeting. The financing approved is part of a stabilization effort that will also contribute to preservation of the 59 existing affordable housing units at this development, including four units dedicated to house long-term homeless households. This commitment called for receipt of resources necessary to complete the stabilization by March 31, 2011, and a closing by June 30, 2011.

Since this time, CommonBond, the replacement owner, has both secured the outside capital funding necessary to complete the conversion, as well as raised and contributed the resources required to stabilize operations. CommonBond has made significant progress towards closing; however, the property experienced significant storm damage due to the tornado that struck Minneapolis on May 22, 2011. Though the property is habitable, damage was sustained to the roof, windows, fencing, trees, and landscaping, as well as carpeting in common areas and resident units where windows were destroyed. It is expected that CommonBond will receive insurance proceeds to cover the cost of the tornado damage and that no additional funds from the Agency will be needed.

Staff is requesting a six month extension to accommodate assessment and coordination of storm repairs, and finalization of due diligence items required for closing.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING MORTGAGE COMMITMENT EXTENSION
ECONOMIC DEVELOPMENT AND HOUSING CHALLENGE (EDHC) PROGRAM

WHEREAS, the Board has heretofore authorized the issuance of a commitment on the development hereinafter named by its Resolution No. MHFA 10-42; and

WHEREAS, it is the desire of the Agency to extend the expiration date to allow for closing of the loan; and

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes the modification of the commitment expiration date on St. Anne's Senior Housing (D3675) to the date indicated below, and hereby confirms the renewal of said commitment, subject to the revisions noted herein:

1. The Commitment Expiration Date: December 31, 2011; and

2. Except for the extended commitment expiration date, all terms and conditions of MHFA Resolution No. 10-42 remain in effect.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

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AGENDA ITEM: 9.A.(4)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Community Activity Set Aside Program

CONTACT: Mary Rivers, 651-297-3127 mary.rivers@state.mn.us; Stephanie Oyen, 651-297-3132 Stephanie.oyen@state.mn.us; Tal Anderson, 651-296-2198 tal.anderson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
The Community Activity Set Aside (CASA) program is the Agency's most targeted mortgage revenue bond program. Through CASA, the Agency provides access to mortgage loans and entry cost assistance funds to assist local partnerships comprised of local lenders, non-profit housing providers, local governments, community organizations, and other participants in reaching emerging markets and single-headed households and supporting workforce housing opportunities. Staff is hereby requesting Board approval of its recommendations for approval of participants in the CASA program.

FISCAL IMPACT:
This program uses mortgage revenue bond and entry cost assistance resources budgeted in the current Affordable Housing Plan. Actions requested in this report are consistent with the program terms described in that Plan.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve our Vision

☐ Preserve Existing Affordable Housing ☐ Work to Prevent and End Homelessness

ATTACHMENT(S):
- Background
- Initiative Detail

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BACKGROUND:
The following recommended selections for CASA meet the guidelines for participation contained within the CASA Program Concept.

Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal for funds access under CASA. The threshold indicators include:

- confirmation that initiative targets fit within the Program Concept; and
- strength of partnership; and
- focused marketing plan; and
- homebuyer support including homebuyer education and/or counseling.

In addition to the threshold indicators, staff also considers compensating factors including local leverage and innovation when making recommendations to the Board.

Minnesota Housing offers access to its HOME Homeowner Entry Loan Program (HOME HELP) and Homeownership Assistance Fund (HAF) entry cost assistance programs to participating CASA lenders.

INITIATIVE DETAIL:

RHAG Region	Application Partners	Initiative Name and Targets	Notes and/or Past Success
Twin Cities Metro	Waterstone Mortgage Corporation Powderhorn Residents Group MN Home Ownership Center	**Waterstone Mortgage – Making a Difference Through Existing Homes** ☑ **New Initative** ☐ **Reapplication** ☐ **HOME HELP** ☑ **Emerging Markets** ☑ **Single-Headed Households** ☑ **Workforce Housing**	This is an active MMP lender with several Top Producing Loan Officers. They are applying for a CASA initiative and have met all thresholds.
Northwest	First National Bank Wells Fargo Home Mortgage Security Bank USA RiverWood Bank Headwaters Regional Development Commission	**Beltrami County Affordable Housing Initiative** ☐ **New Initative** ☑ **Reapplication** ☑ **HOME HELP** ☑ **Emerging Markets** ☑ **Single-Headed Households** ☑ **Workforce Housing**	They had no production last year, and are actively working with our Business Representatives to identify training and marketing opportunities.

RHAG Region	Application Partners	Initiative Name and Targets	Notes and/or Past Success
Southeast	Wells Fargo Home Mortgage Home Federal Savings Bank Merchants Bank Eastwood Bank First Homes	**Rochester First Homes** ☐ **New Initative** ☑ **Reapplication** ☑ **HOME HELP** ☑ **Emerging Markets** ☑ **Single-Headed Households** ☑ **Workforce Housing**	Limited production, but met the targeted goals of their initiative.
Twin Cities Metro	Prospect Mortgage Powderhorn Residents Group Minnesota Home Ownership Center	**Prospect Mortgage – Helping Through Existing Homes** ☐ **New Initative** ☑ **Reapplication** ☑ **HOME HELP** ☑ **Emerging Markets** ☑ **Single-Headed Households** ☑ **Workforce Housing**	Limited production, but met the targeted goals of their initiative.

AGENDA ITEM: 9.B.(1)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Post-Sale Report, Minnesota Housing Finance Agency Homeownership Finance Bonds, 2011 Series C (Mortgage-backed Securities Program) and Homeownership Finance Bonds, 2011 Series D (Mortgage-backed Securities Program).

CONTACT: Patricia Hippe, 651-297-3125
patricia.hippe@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency sold an issue of long-term bonds in June to provide financing for its homeownership lending programs. Pursuant to the Debt Management Policy, a post-sale report about the sale's results will be presented by the Agency's financial advisor, CSG Advisors, at the Board meeting. No materials are provided in the Board mailing. The item does not require approval.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☐ Work to Prevent and End Homelessness

ATTACHMENT(S):
None.

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AGENDA ITEM: 9.B.(2)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Environmental Scan

CONTACT: John Patterson, 651-296-0763
john.patterson@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
As part of Minnesota Housing's process for developing the upcoming Affordable Housing Plan, the Research Department prepared an environmental scan that identifies the demographic, economic, and market factors impacting the agency. At the Board meeting, John Patterson will walk through the full scan. The scan is enclosed in the Board packet if you want to review it ahead of time.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☑ Mitigate Foreclosure Impact Through Prevention and Remediation

☑ Build our Organizational Capacity to Excel and Achieve our Vision

☑ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENT:

Environmental Scan: Demographic, Economic, and Market Factors Impacting Minnesota Housing

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Minnesota Housing
Finance Agency

Environmental Scan:

Demographic, Economic and Market Factors Impacting Minnesota Housing

June 2011

A key step in any planning process is understanding how the environment in which an organization operates affects its ability to achieve its mission.

This environmental scan examines how external factors are affecting (and will affect) Minnesota Housing.

The factors include demographic, economic, and market conditions and trends.

Items for Discussion

1. **Continuing Instability and Uncertainty**
   a. **Great Recession and Slow Recovery**
   b. **Foreclosure Crisis and Declining Property Values**
2. **Great and Growing Need versus Limited and Declining Resources**
   a. **Increasing Cost Burden and Need for Additional Affordable Housing**
   b. **Declining Resources to Finance Affordable Housing**

Minnesota Housing Finance Agency

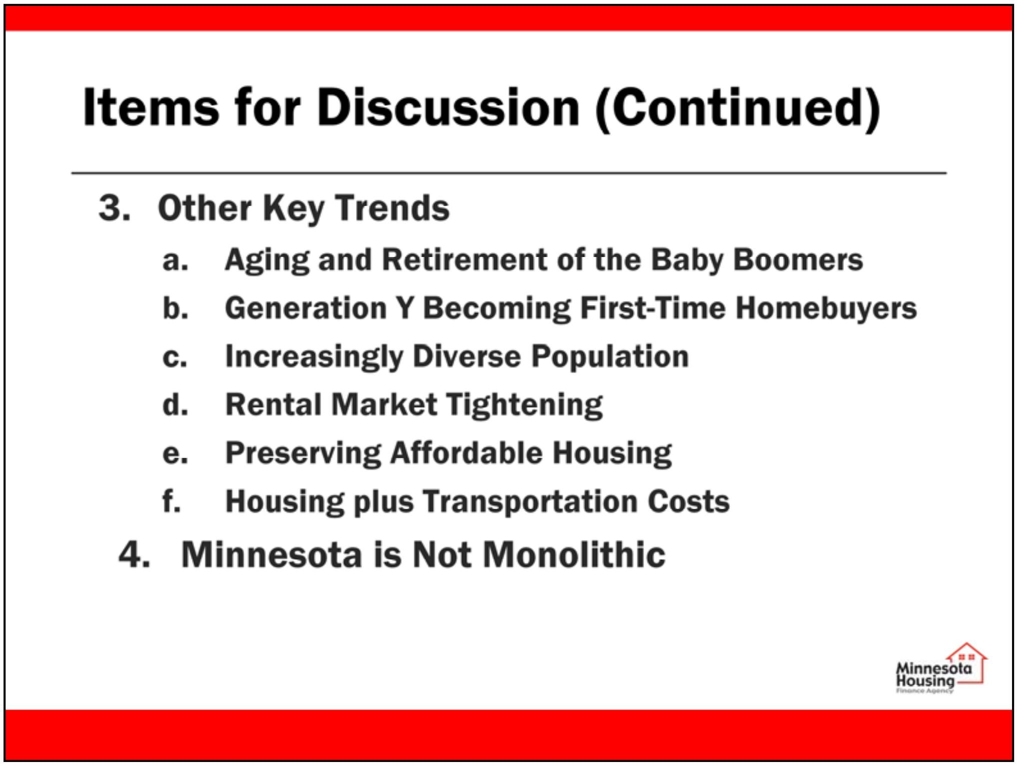
Currently, there are two overriding issues confronting Minnesota Housing and its ability to achieve its mission.

First, we are currently in a period of continuing instability and uncertainty.

- The economic recovery from the "Great Recession" has been slow with high unemployment.
- The foreclosure crisis continues, which has resulted in neighborhood and housing-market instability and declining property values. After momentarily stabilizing with the homebuyer tax credits, property values are dropping again with the expiration of the credits.

Second, the agency is facing a growing demand for its services while its ability to generate funds to finance affordable housing has been significantly constrained. Specifically,

- On the need side:
  - The percentage of lower-income households who are cost-burdened by their housing payments is increasing. More affordable housing is needed.
  - Homelessness is increasing.
- On the resource side:
  - Because of issues in the tax exempt bond market, the ability of the agency to borrow money at sufficiently low interest rates to make sense for borrowers is limited.
  - The amount of cash that can be generated by Low-Income Housing Tax Credits has declined – though it started to recover in mid-2010.
  - The state is facing a very large budget deficit, and Minnesota Housing will face reductions in its state appropriations.

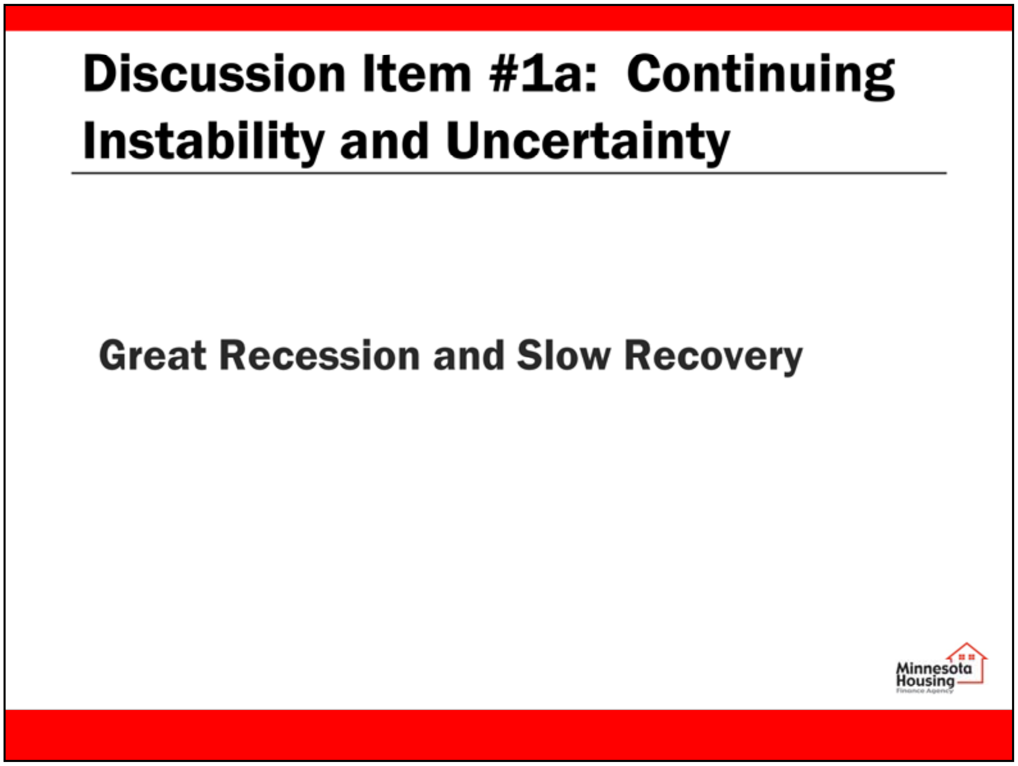


There are other key demographic, economic, and market trends to that will be assessed in this environmental scan:

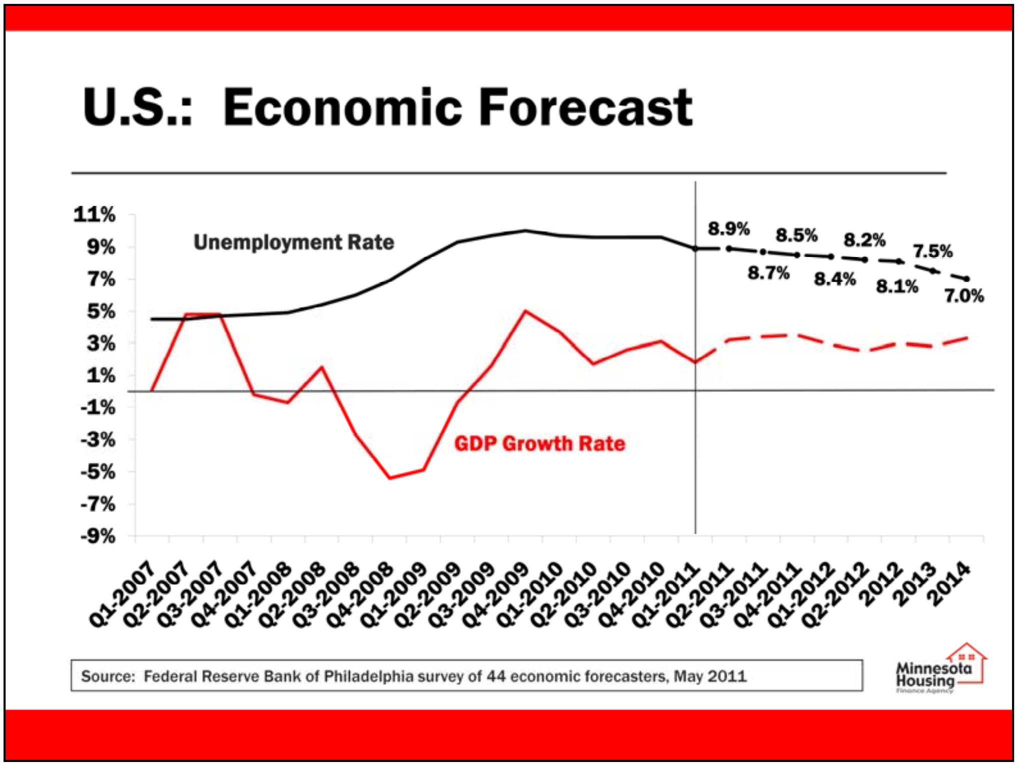
- Baby boomers are aging and starting to retire. As the state's largest age cohort, their housing needs will continue dominate the housing market.
- Member of Generation Y (Baby Boom Echo) are becoming first-time homebuyers. Even though this age cohort has more people than generation X (the current first-time homebuyer age group), many people expect a decline in homeownership demand due to the characteristics and behavior of generation Y and because of market forces triggered by the current housing crisis.
- A growing share of the state's population will be from communities of color.
- The rental market is tightening with declining vacancy rates, which may increase the demand for new construction of rental in the near future. In addition, with a decline in homeownership, there will probably be a renewed interest in rental housing.
- There is a strong need to preserve Minnesota's existing stock of affordable housing. For example, staff estimate that roughly 30% of Minnesota's 31,000 Section 8 units are at risk of opting out of the program in the next five years.
- There is a growing recognition that transportation cost plays a key role in the overall affordability of housing.

Finally, Minnesota is not monolithic. Needs and challenges vary around the state. A need or challenge in one part of the state may not be a need or challenge in another.

The following slides will provide information about each of these trends.



We'll start with <u>continuing instability and uncertainty</u> and examine the country's slow recovery from the "Great Recession."



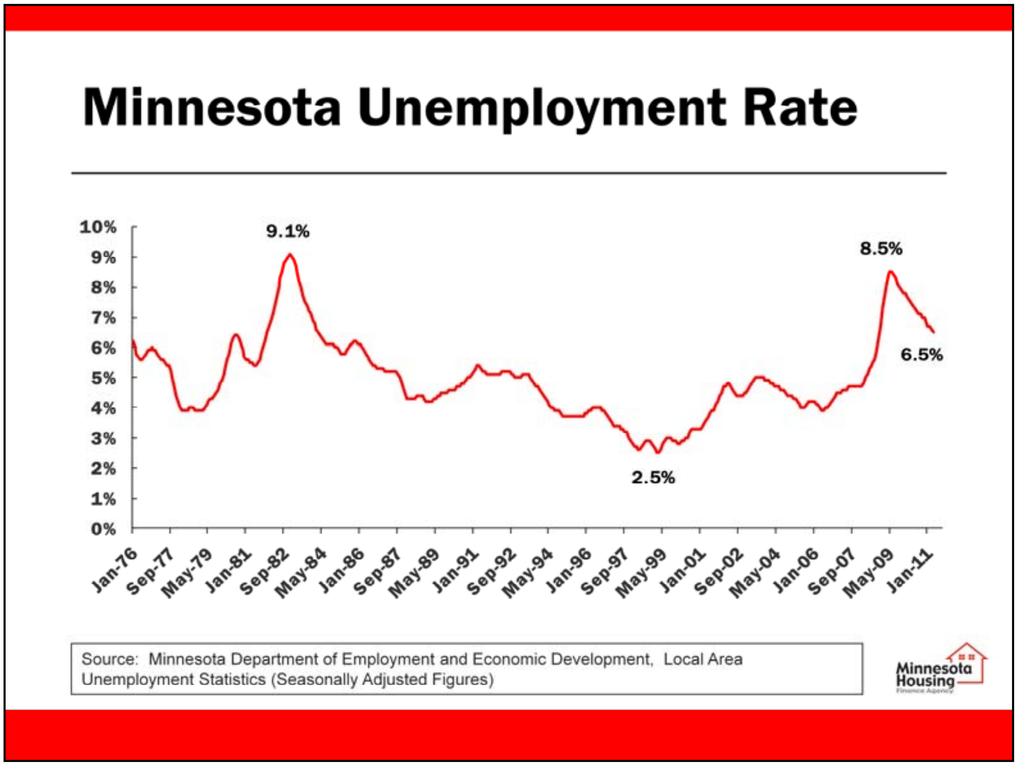
This graph shows the performance of the U.S. economy.

Reading the Graph

- The solid lines on the left side of the graph show actual performance between the first quarter of 2007 and the first quarter of 2011.
- The dashed lines on the right side are projected performance through 2014.

Key Points

- The economy was in a deep recession in 2008 and 2009, with economic activity bottoming out during the fourth quarter of 2008, during which gross domestic product (GDP) declined at an annualized rate of 5.4 percent.
- The deep recession sent the national unemployment rate to 10 percent.
- The recovery has been slow. During post World War II recoveries, GDP grew on average by 6.8 percent in the year after the recession. In 2010, growth was just under 3 percent, which is a slow and lackluster recovery.
- The lackluster and slow recovery will keep unemployment rates high through 2014. It is going to take a long time for the economy to recreate the jobs lost during the recession



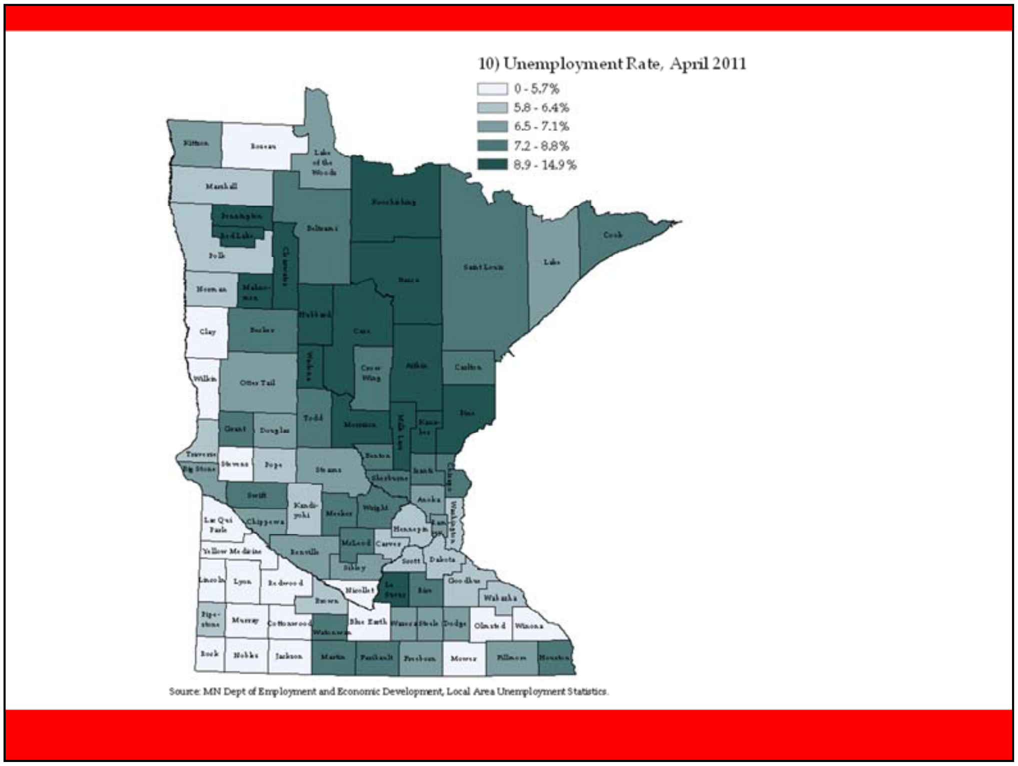
If we look at the situation in Minnesota, the picture is a little bit better.

Key Points

- The unemployment rate in Minnesota is lower than the national level and has shown more improvement.
- Nevertheless, 6.5 percent is still a relatively high rate.
- The graph also shows how the unemployment rate in the current recession compares with other recessions – the early 80s, early 90s, and early 2000s.

Implications

- Unemployment:
    - Reduces families abilities to make rent and mortgage payments,
    - Can lead to mortgage delinquencies and foreclosures,
    - Can lead to homelessness, and
    - Can lead some renters to double up and move in with family and friends, which increases rental vacancy rates.



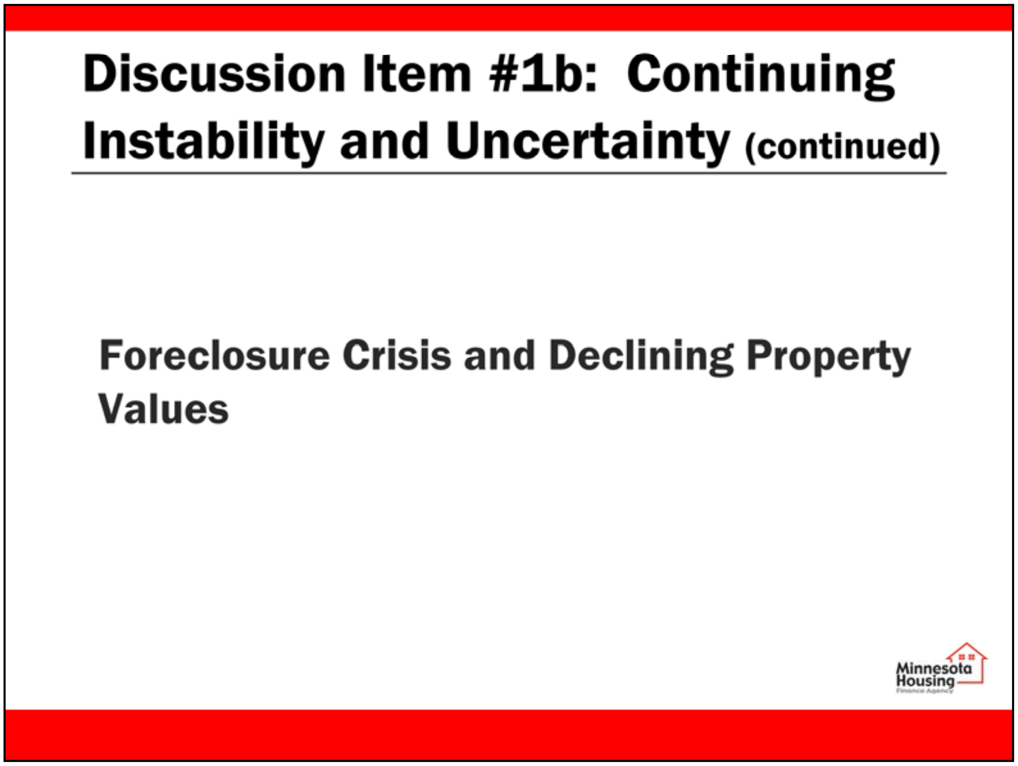
The unemployment rate varies widely in Minnesota.

Key Points

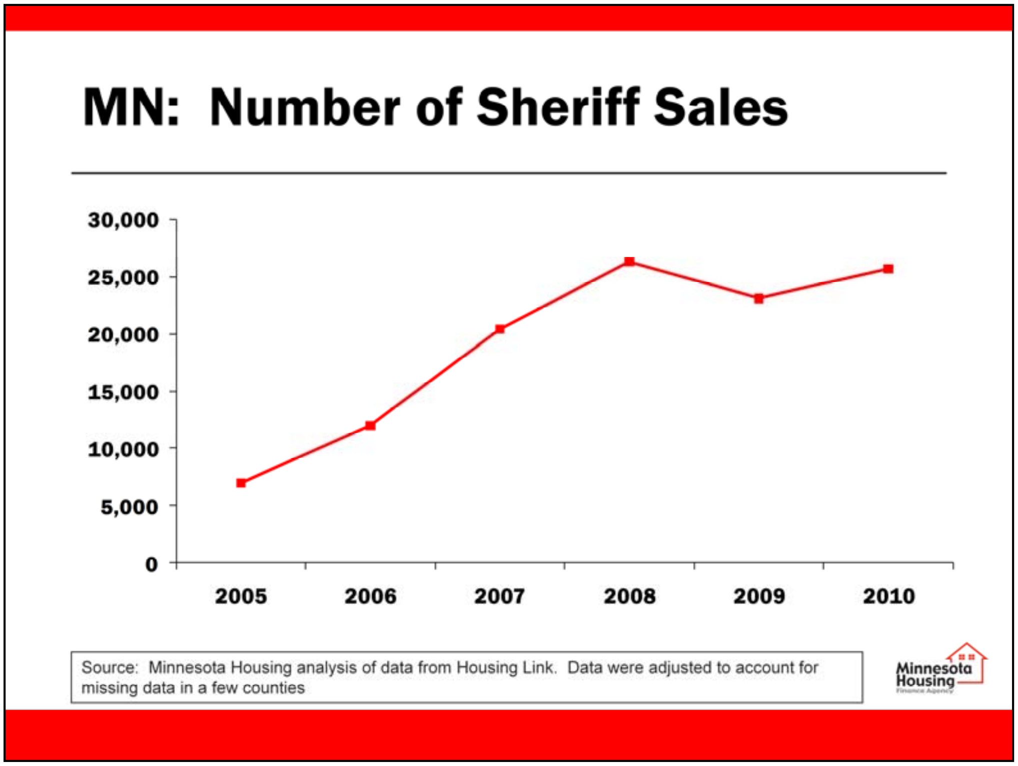
- By county, rates vary from 3.9% to 14.9% percent.
- Generally, rates are lower in the southwest and higher in the north central counties.

Implications

- The impact of the recession and high unemployment on the housing market will vary by region within the state.

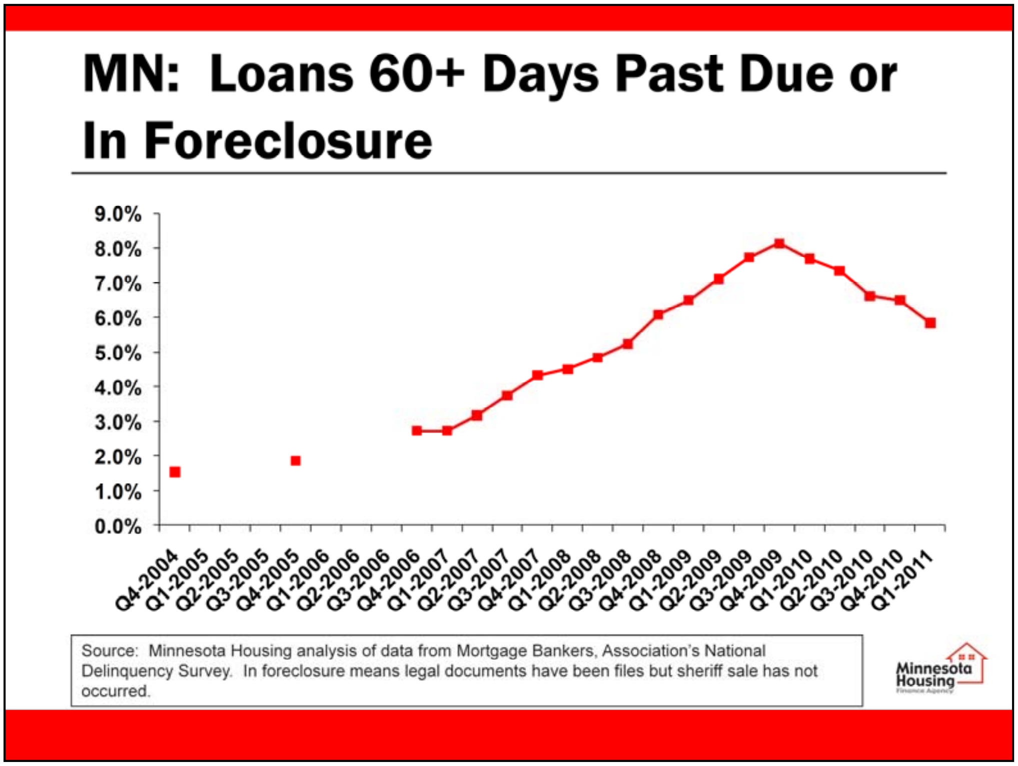


We'll now examine another issue related to continuing instability and uncertainty – the foreclosure crisis and declining property values.



Key Points

- The state has seen a dramatic increase in foreclosures since 2005, rising from 7,000 in 2005 to 26,000 in 2008.
- The number dropped to 23,000 in 2009 but rose to nearly 26,000 again in 2010.



Reading the Graph

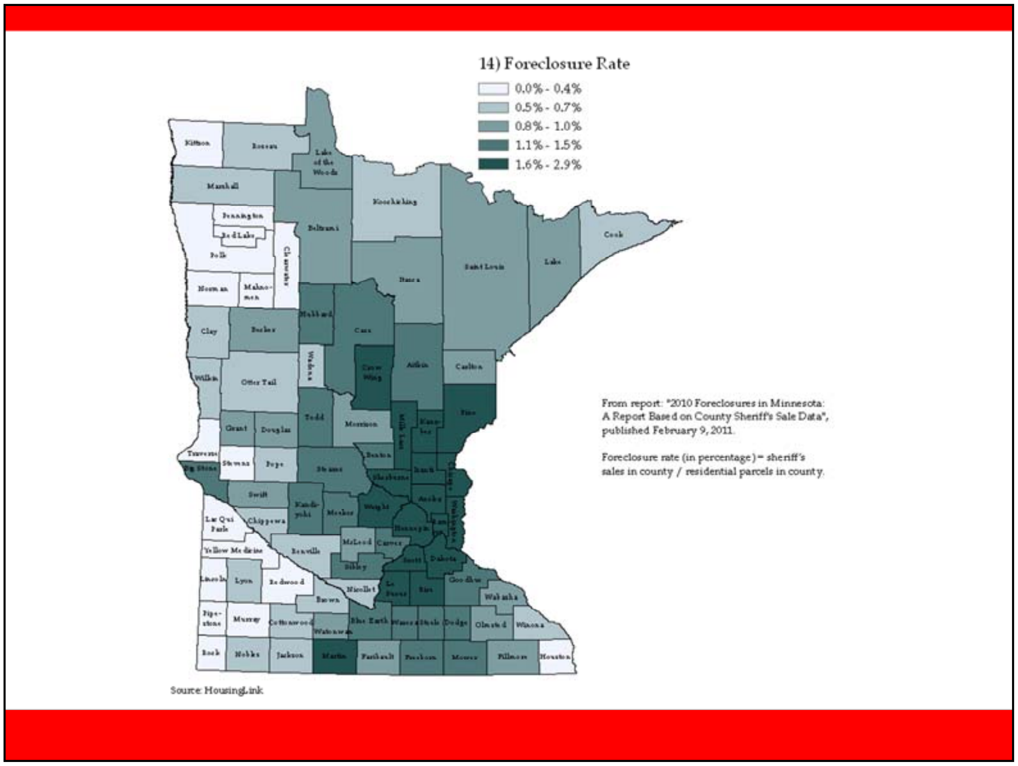
- The graph shows the number of loans in delinquency or foreclosure – i.e. loans at least 60 days past due, including loans in foreclosure (legal foreclosure documents filed but sheriff sale has not yet occurred).

Key Points

- On the positive side, the number of loans in delinquency or foreclosure has declined for the five most recent quarters.
- On the negative side, having 5.84% of loans in delinquency or foreclosure is still very high from a historical perspective.

Implications

- While there are initial signs that the delinquency problem is starting to taper off, there are still a lot of delinquent loans, which may become foreclosed.



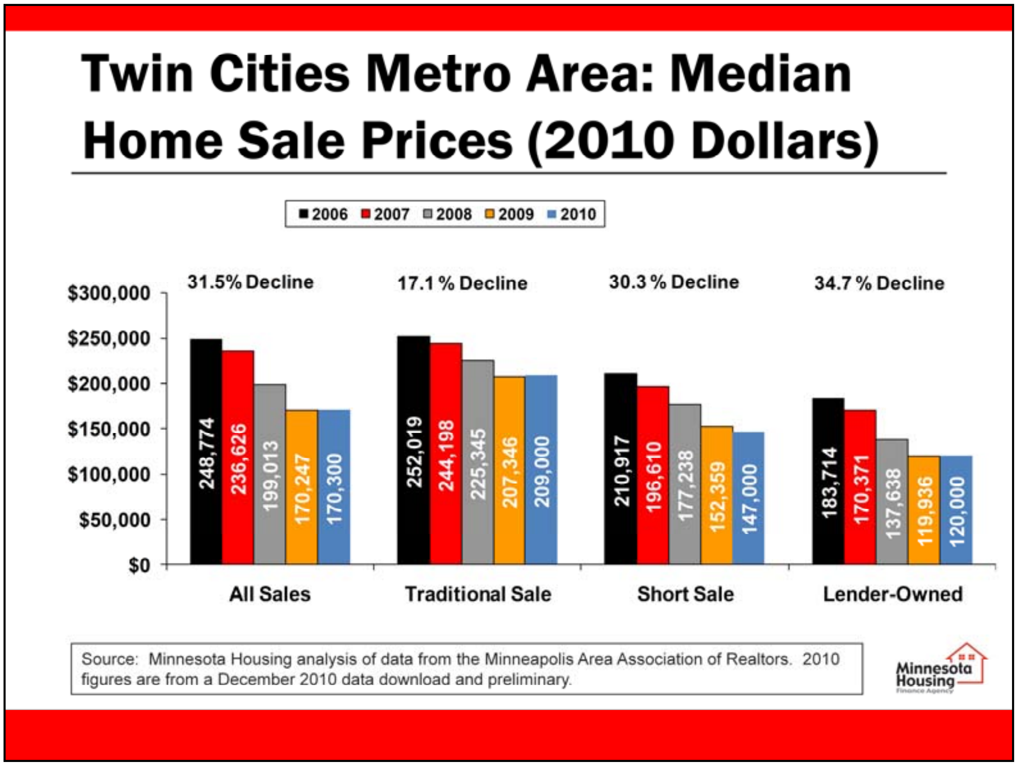
The rate of foreclosure is very different in different parts of the state.

Reading the Map

- This map shows the number of sheriff sales per residential partial in each county.

Key Points

- Foreclosures have been concentrated in the Twin Cities metro area and surrounding counties.
- Communities in North Minneapolis, the Eastside of St. Paul, and in the collar communities of Wright, Sherburne, and Isanti counties have been hit the hardest.



The foreclosure crisis has had a dramatic impact on housing prices.

Reading the Graph

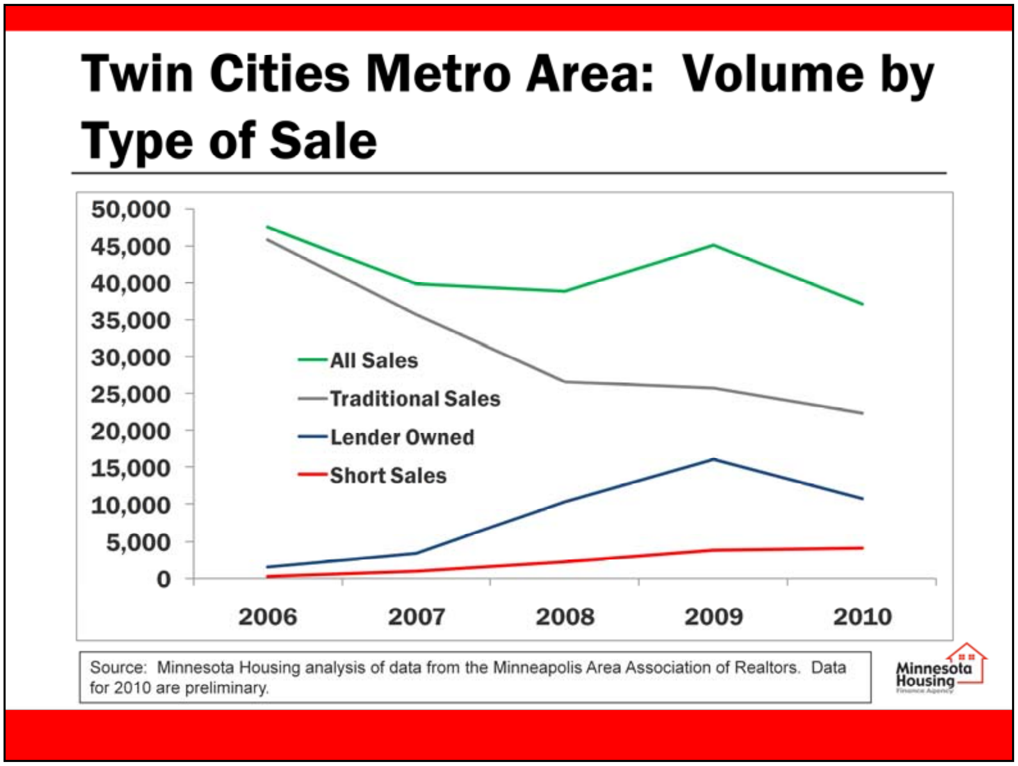
- This graph shows median home sale prices and changes in median prices for the metro area for 2006 through 2010 (adjusted for inflation).
- The data are broken out into four segments:
  - All sales,
  - Traditional sales,
  - Short sales, and
  - Lender-owned sales (foreclosed properties).

Key Points

- Lender-owned sales and short sales have seen the largest price decline between 2006 and 2010, respectively declining by 34.7 percent and 30.3 percent.
- Comparatively, traditional sales have seen a more modest decline (17.1 percent).

Implications

- With the foreclosure crisis, housing prices have declined dramatically.
- The level of decline depends on the market segment that is examined.

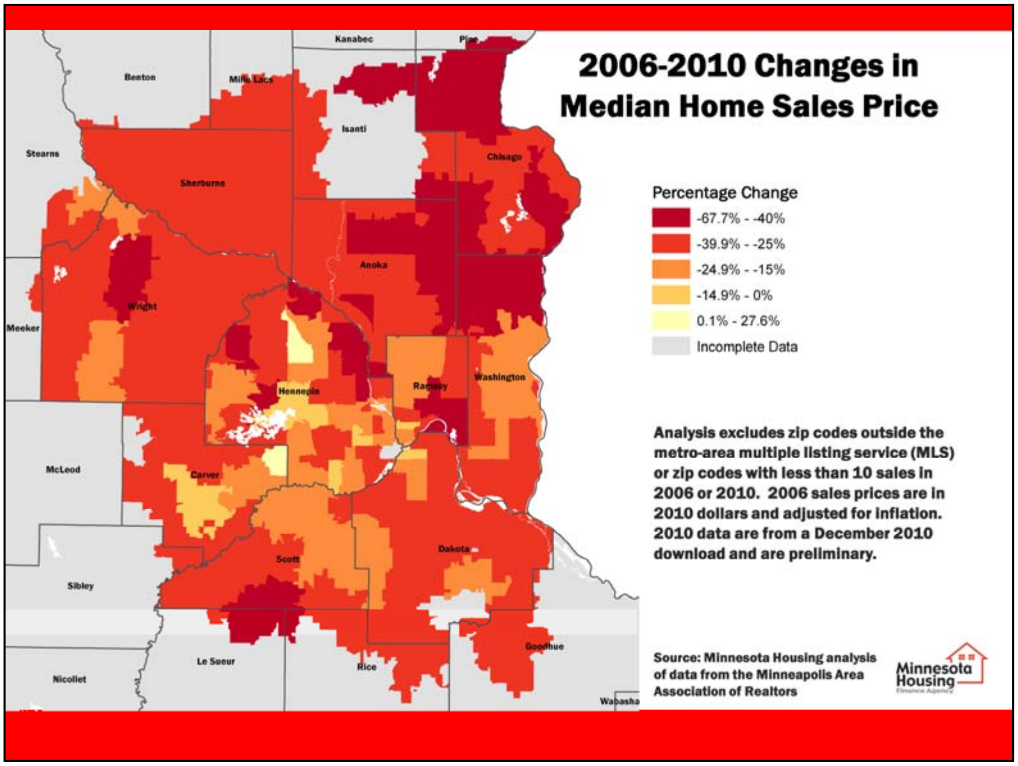


Reading the Graph

- This graph shows the number of sales by market segment – all sales, traditional sales, lender-owned sales, and short sales.

Key Points

- In 2006, almost all sales were traditional sales, with very few lender-owned or short sales (4%).
- By 2009, nearly half (44%) of sales were lender-owned or short sales.
- The percentage of lender-owned and short sales dropped a little to 39% in 2010.
- The 31.5 percent decline in the median sale price for all sales (shown on the previous slide) was driven by two factors:
    - Price declines in traditional, short, and lender-owned sales, and
    - A dramatic increase in the number of lender-owned and short sales (which have lower median sales prices than traditional sales). As these lower-priced homes accounted for a growing share of the sales, the median home sale price declined.



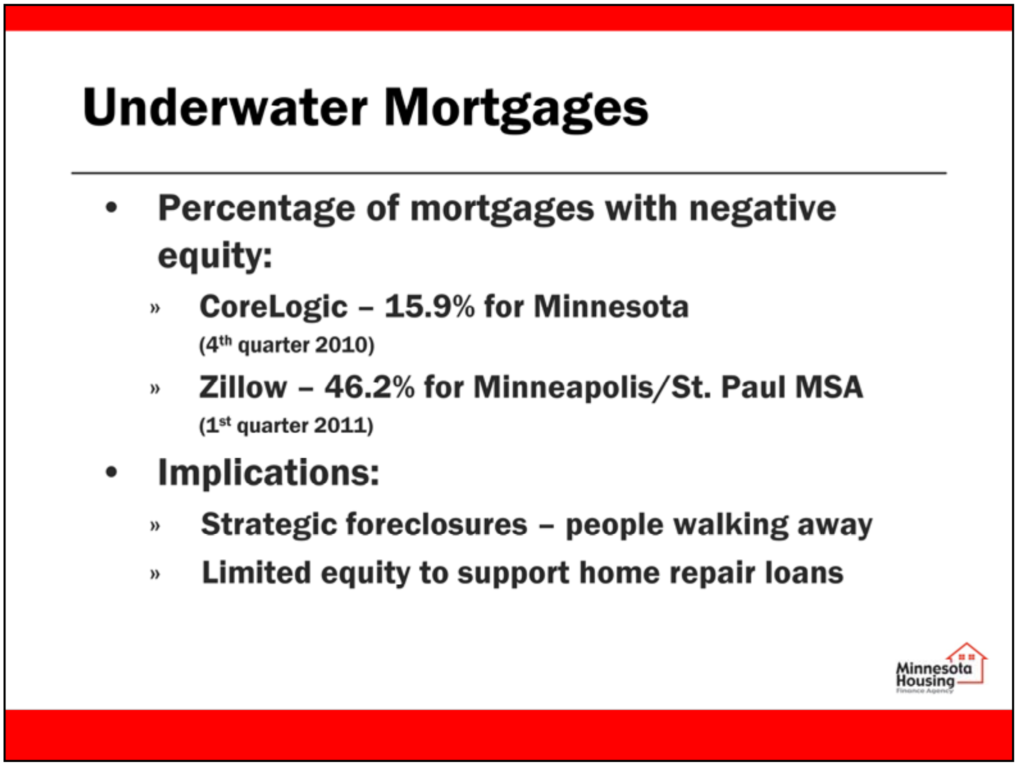
Once again, Minnesota is not monolithic. Price declines have varied widely around the state.

Reading the Map

- This map shows median home sale price changes for the metro area between 2006 and 2010, based on data that the Minneapolis Area Association of Realtors provided from the metro region MLS.

Key Points

- Generally, areas with higher foreclosure rates have had larger price declines.
- The price declines ranged from a 67.7 percent decrease in North Minneapolis to a price increase in north central Hennepin and northwest Carver.



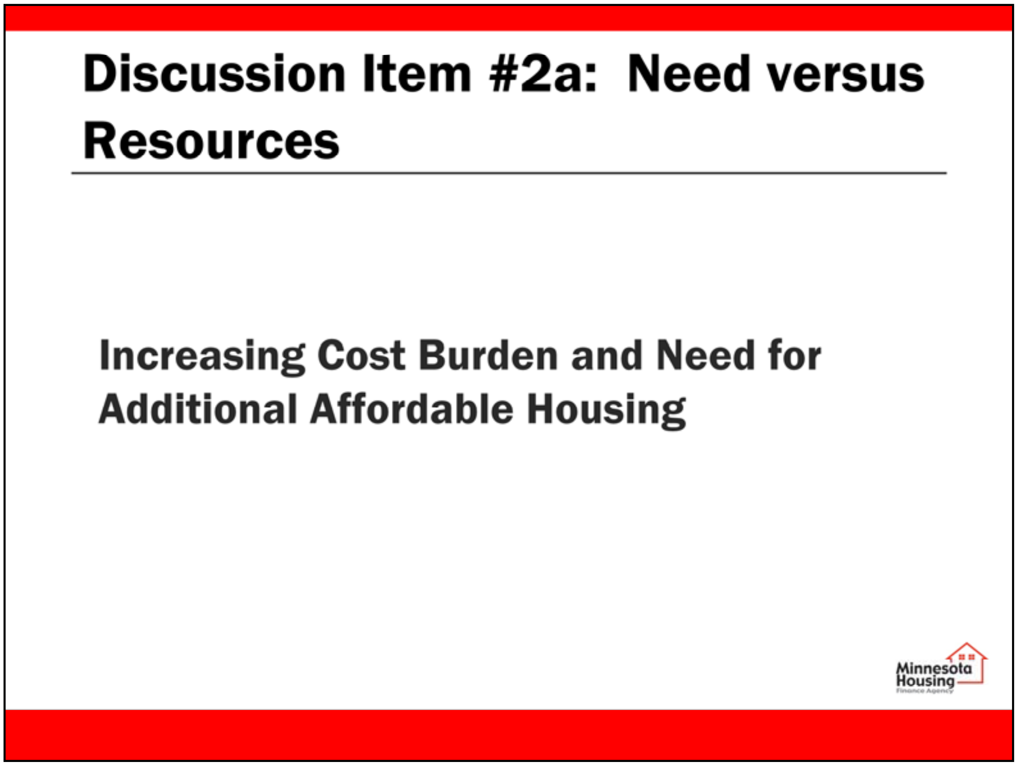
With the price declines, a large share of mortgages are now “underwater.” People owe more on their mortgage than their home is worth. There is negative equity in the home.

Estimates on the percentage of homes that are underwater vary.

- According to CoreLogic, 15.9% of mortgages in Minnesota are underwater.
- According to Zillow, the figure is 46.2% in the metropolitan statistical area of Minneapolis / St. Paul .

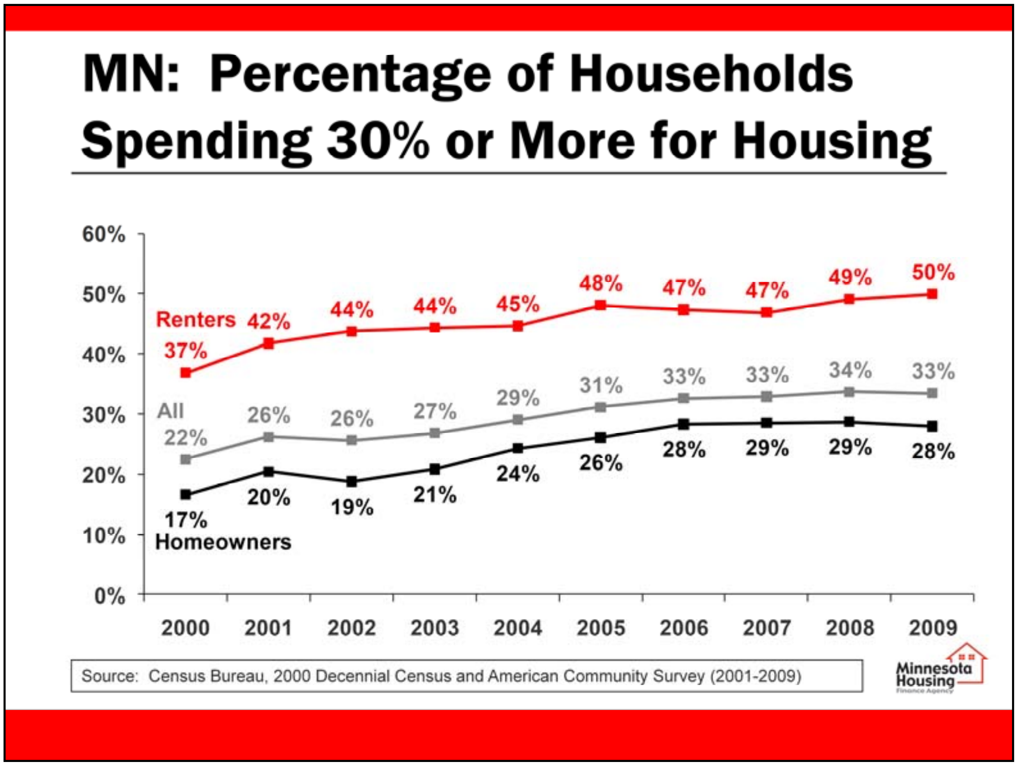
Regardless of the source, a substantial number of Minnesotans with mortgages are now underwater, which has several implications:

- Facing the prospect of owing more on their mortgage than their home is worth, some people may decide to walk away from their mortgage and home, which will contribute to the foreclosure crisis.
- People with home repair needs will find it difficult to get a loan for this work, which limits society’s ability to maintain the quality of the existing housing stock.



We'll now turn to the second item for discussion – the growing need for additional affordable housing versus the limited supply of resources to finance the needed housing.

We'll start with the first half of that comparison – the increasing need.

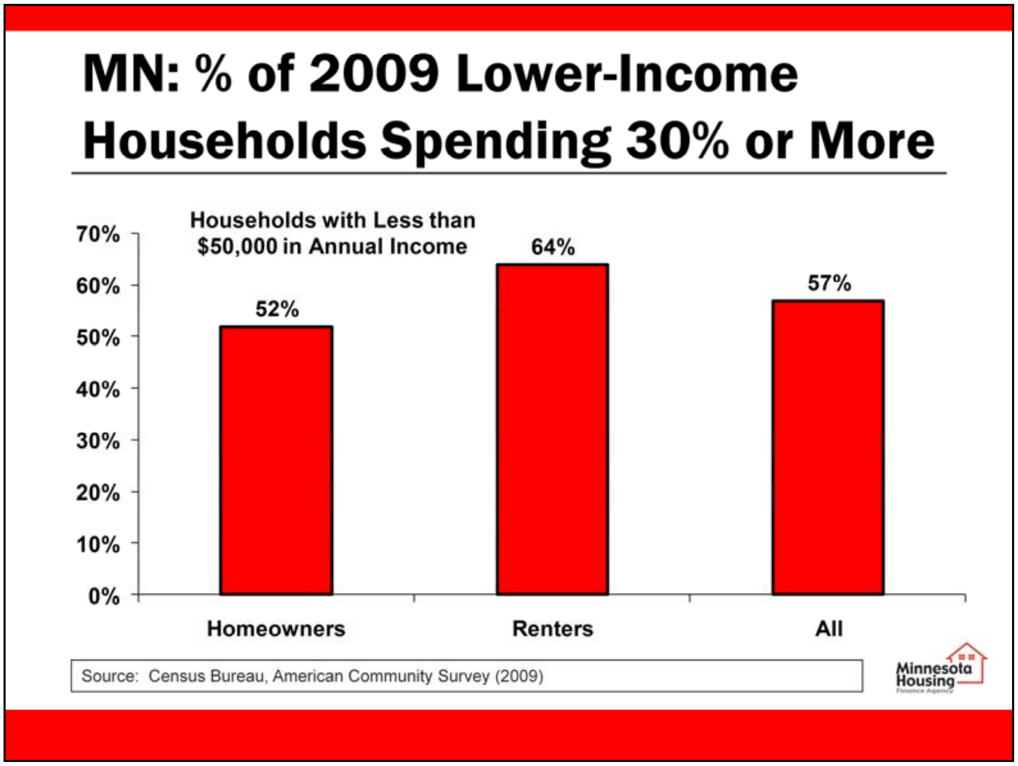


Key Points

- The percentage of Minnesota renters who are cost burdened has increased from 37 percent in 2000 to 50 percent in 2009. (Red line)

- The percentage of Minnesota homeowners who are cost burdened has increased from 17 percent in 2000 to 28 percent in 2009. (Black line)

- Overall, roughly one in every three households (renter and homeowner) were cost burdened in 2009 as compared with one in very four in 2000. (Gray line)



Minnesota Housing's mission is to serve lower-income households. The agency is less concerned with higher-income households that are cost burdened.

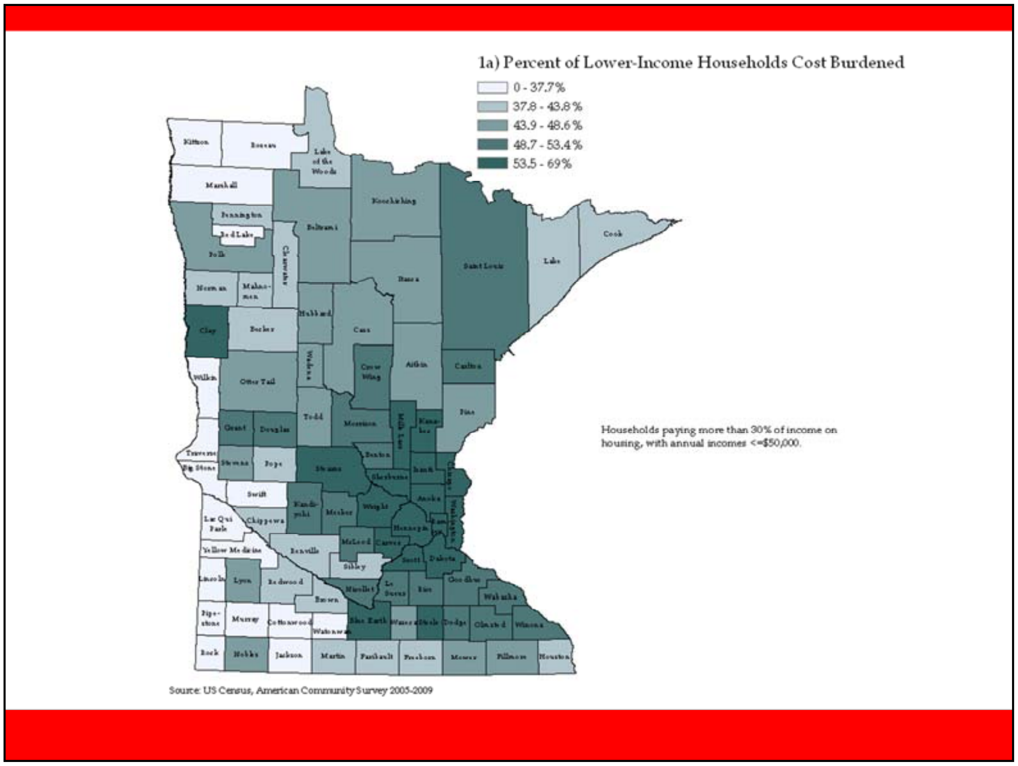
Reading the Graph

- This graph shows the percentage of household with an annual income below $50,000 that were cost burdened in 2009.

Key Points

- Over half of lower-income households are cost-burdened and need housing that is more affordable.

- Nearly two-thirds of lower-income renters are cost burdened.



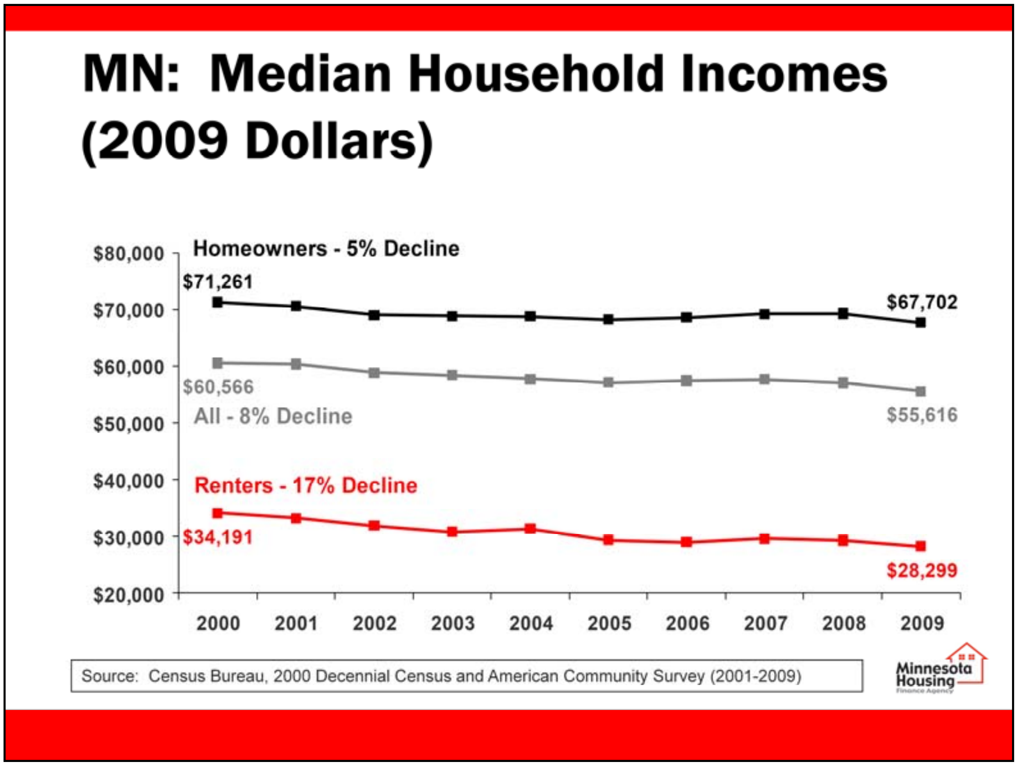
It is interesting to examine how the percentage of lower-income households that are cost burdened varies around the state.

Reading the Map

- This maps shows the percentage of households earning less than $50,000 that are cost burdened by county.

Key Points

- The cost-burdened percentage ranges from 30 to 68 percent.
- The highest cost-burdened percentages are generally in the metro area, and the lowest percentages are in the western part of the state.
- Even the county with the lowest percentage has about 30 percent of its lower-income households cost burdened.



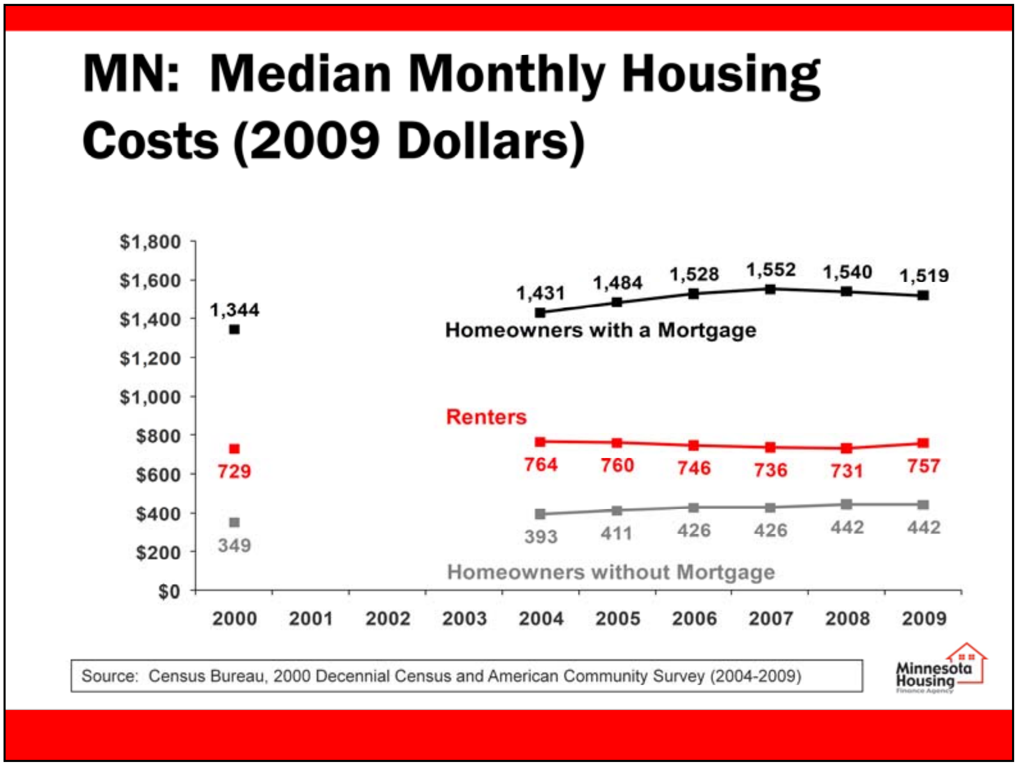
The cost-burden percentage is the ratio of housing costs to household income.

Thus, to understand the cost-burden trends, we need to examine both household income and housing cost trends.

We'll start with household incomes.

Key Points

- Over the last decade, the median income of renters declined by 17 percent after controlling for inflation. (Red line)
- During the same period, the median income of homeowners declined by just 5 percent. (Black line)



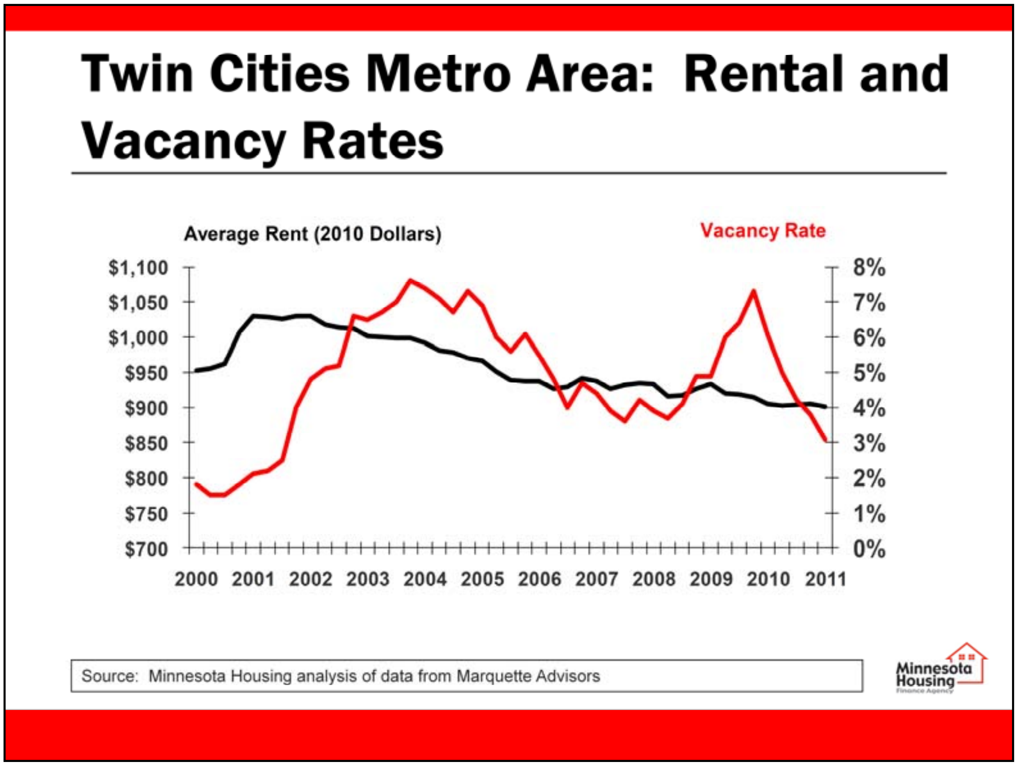
After examining the incomes, we now turn to the housing costs.

Key Points

- Median rents (after controlling for inflation) started at $729 and ended at $757. (Red Line) Rents did rise in the first half of the decade but fell in the later half, with am increase at end.
- In contrast, monthly homeownership costs increased steadily during the decade rising from $1,344 in 2000 to $1,552 in 2007. (Black line) The median cost dropped in 2008 and 2009. The decline is starting to capture the recent decline home sale prices. Nevertheless, costs were up significantly during the decade.

Implications

- Renters have had flat rents but declining incomes. Declining incomes are driving the cost burden increases.
- Homeowners have had increasing housing costs but flat incomes. Increasing housing costs are driving the cost burden increases.

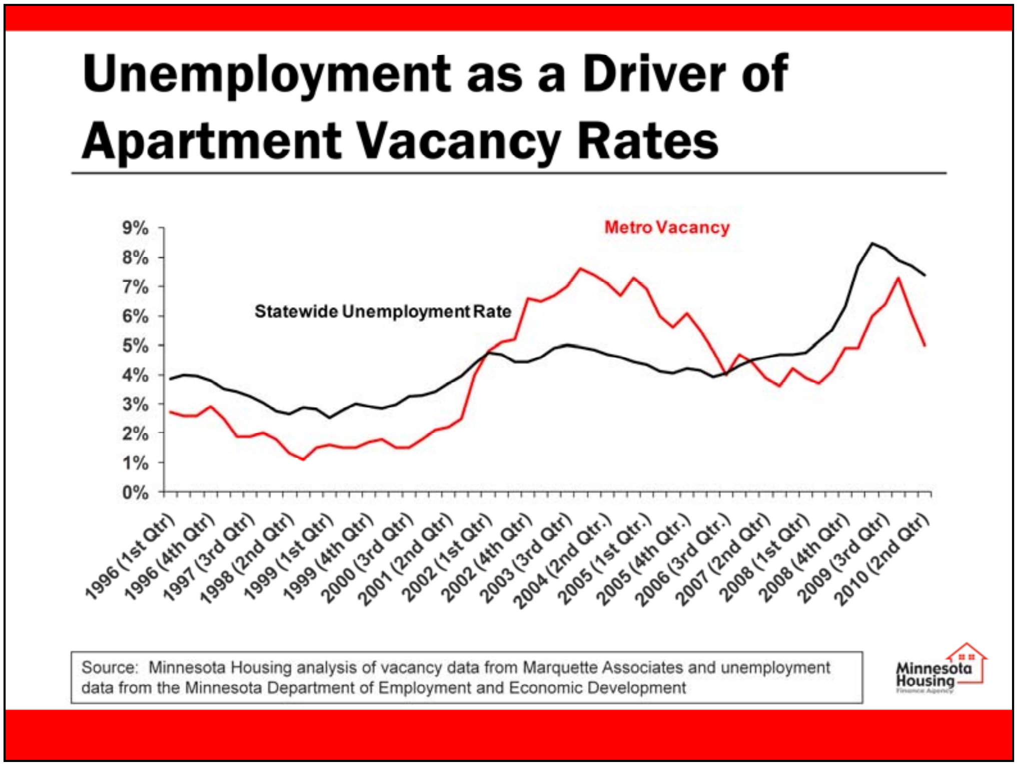


Household incomes are largely outside the control of Minnesota Housing. We don't run an employment program. However, we do operate housing finance programs. Thus, housing costs are a key concern for the agency.

We'll start by examining the market factors that drive rents.

Key Points

- Vacancies play a key role in determining rent levels.
- When vacancies were below 4 percent in the early part of the decade, rents increased in the Twin Cities.
- When vacancies rose above 6 percent between 2003 and 2005, rents declined.
- When vacancies were between 4 percent and 6 percent between 2006 and 2008, rents were flat.
- Falling vacancies will once again likely cause rents to increase.

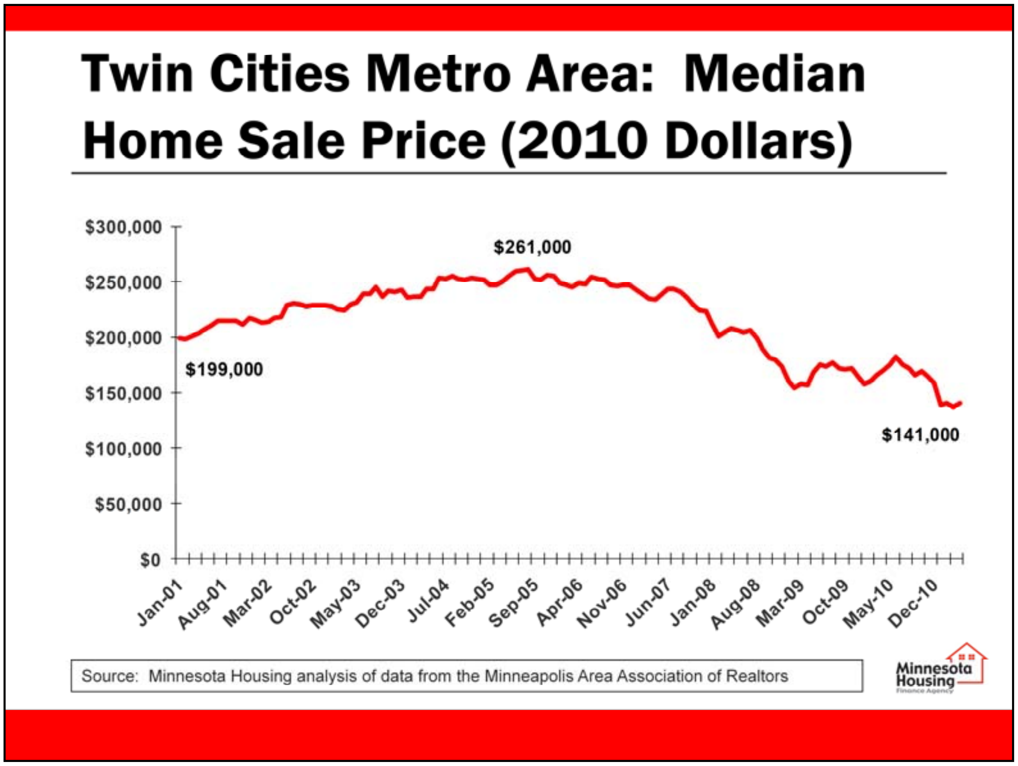


Key Points

- The unemployment rate is a primary driver of the vacancy rate.
- When the unemployment rate is high, the vacancy rate is high because people double up to save money and young adults move back in with their parents.

Implications

- With an improving unemployment rate, the vacancy rate has declined recently.
- In the near-term, with vacancies below 4 percent, we may see increasing rents.

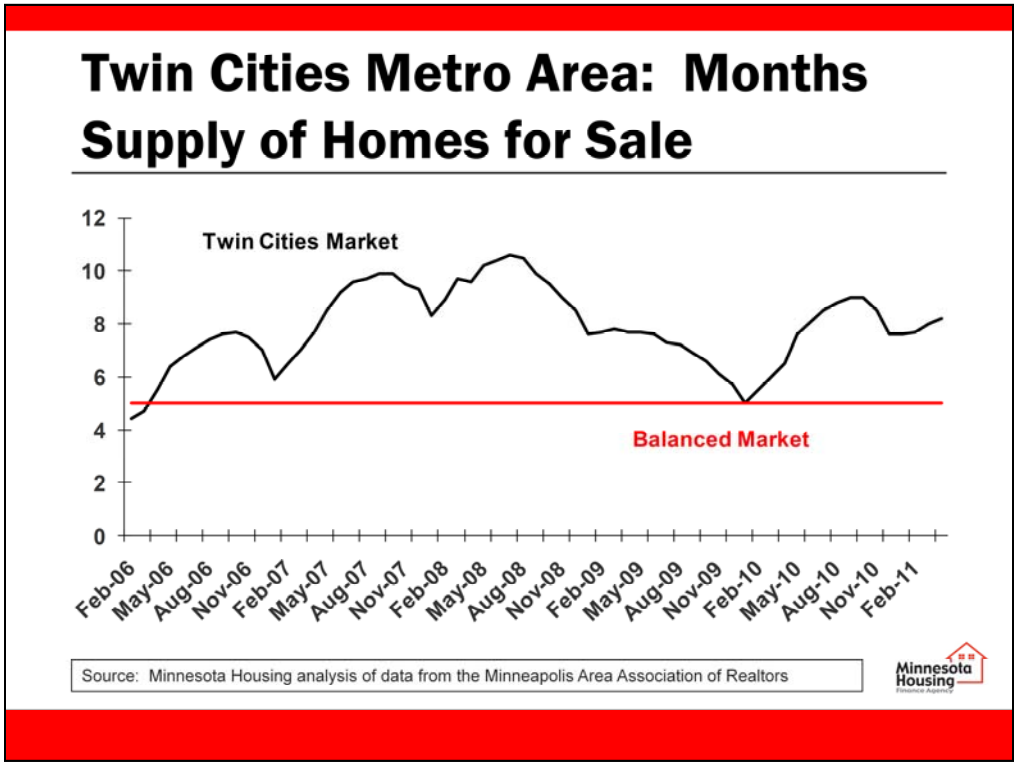


Now turning to homeownership costs.

The housing bubble and the foreclosure crisis have been primary drivers of home sale prices.

Key Points

- Housing prices rose dramatically during the first half of the decade (even after controlling for inflation) but declined rapidly in the second half of the decade.
- In 2009 and 2010 prices stabilized with homebuyer tax credit.
- With the expiration of the tax credit, prices have fallen again.



Looking forward, a key leading indicator of housing price trends is the months supply of homes for sale.

Reading the Graph

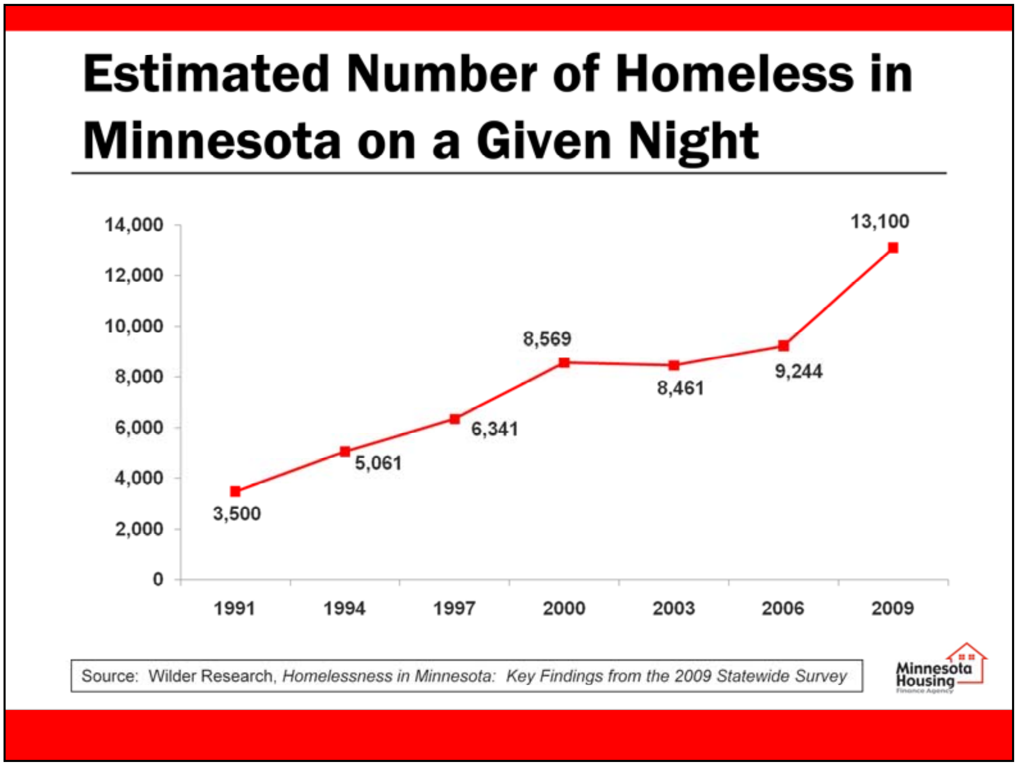
- This graph shows the months supply of homes for sale in the Twin Cities metro area since early 2006, which has been a period of declining prices.
- The months supply of homes for sale is based on the inventory of homes for sale and how quickly homes are currently selling.
- A five month supply is considered a balanced market – neither a seller's nor a buyer's market.

Key Points

- With the support of the homebuyer tax credit, the months supply of homes came down to 5 months, which stabilized home prices.
- However, the months supply has since increased again and was up to 8.2 months in April 2011.

Implications

- As long as the months supply of homes for sale remains high, there will be downward pressure on home prices.



We're going to shift gears from looking at the general need for affordable housing to a specific, high-level need – homelessness. Having a home is the issue, rather than just being cost-burdened.

Reading the Graph

- This graph shows the estimated number of people in Minnesota experiencing homelessness on a given night.

Key Points

- Homelessness increased between 1991 and 2000, leveled off through 2006, and increased dramatically in 2009.
- The economy is a clear contributor. According to the Wilder survey, 40 percent of homeless adults in 2009 reported a job loss or reduced hours as a reason they lost their housing.

Discussion Item #2b: Need versus Resources (continued)

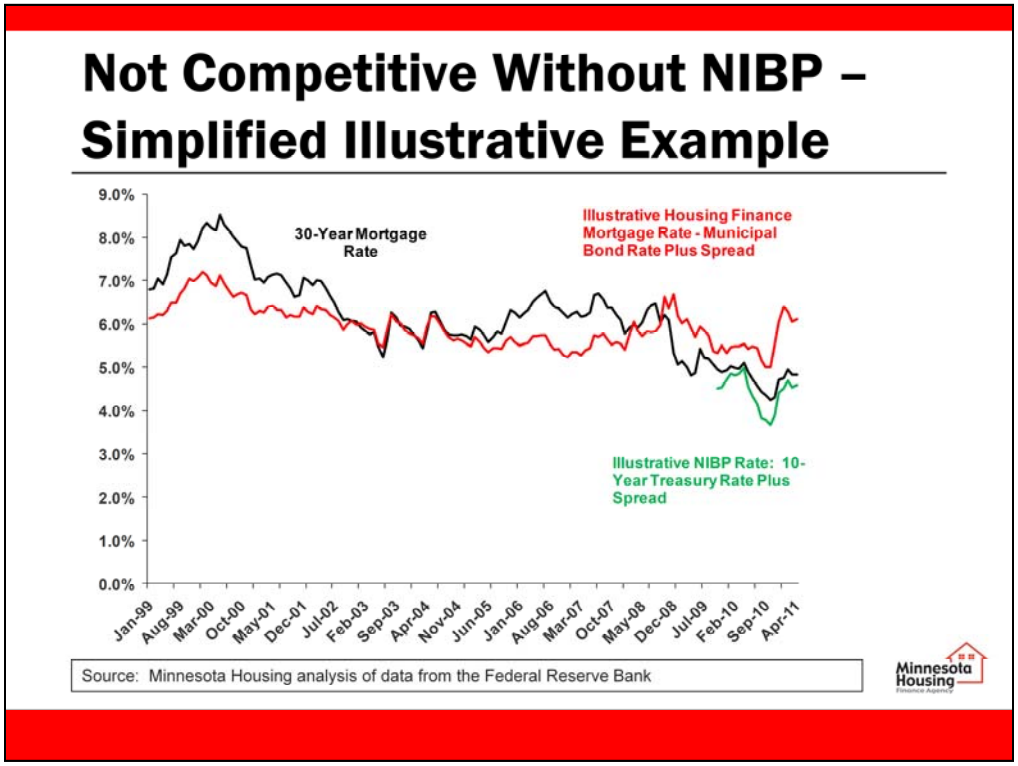
Declining Resources – Cannot Borrow Funds in the Market at Sufficiently Low Interest Rates

Minnesota Housing Finance Agency

After assessing the need for additional affordable housing, we need to examine the resources that the agency has to finance additional units and preserve existing units.

We'll first examine the agency's ability to access funds in the bond market.

As the following slides will show, without the help of the U.S. Treasury's New Issue Bond Program, Minnesota Housing cannot borrow funds in the bond market at sufficiently low interest rates to make sense for homebuyers.



Minnesota Housing faces a challenging bond market and very low private mortgage rates.

The graph shows a significant simplification of how Minnesota Housing borrows funds in the bond market. In addition, the types of bonds used in the analysis (and their corresponding interest rates) are proxies, rather than the actual types of bonds and interest rates that Minnesota Housing uses. Nevertheless, the data and graphs show the proper relationships and accurately identify the challenges that Minnesota Housing faces in the bond market.

Reading the Graph

- The black lines shows the private 30-year mortgage rate.
- Minnesota Housing borrows funds using tax-exempt municipal bonds, adds a spread for administrative expenses and earnings, and then offers mortgages at the rate reflected by the red line.
- With the New Issue Bond Program (NIBP), Minnesota Housing borrows from the U.S. Treasury at the 10-year Treasury rate which has allowed the agency to offer mortgages at the rate reflected by the solid green line after adding a spread.

Key Points

- Prior to the financial crisis that started in the fall of 2008, Minnesota Housing was able to offer mortgages with interest rates below market. (The red line is below the black line.)
- After the crisis, Minnesota Housing has been unable to offer below-market mortgages using its standard financing tool, tax-exempt bonds. (The red line is above the black line.)
- However, NIBP has temporarily allowed the agency to offer mortgages with below-market rates. (The green line is below the black line.)

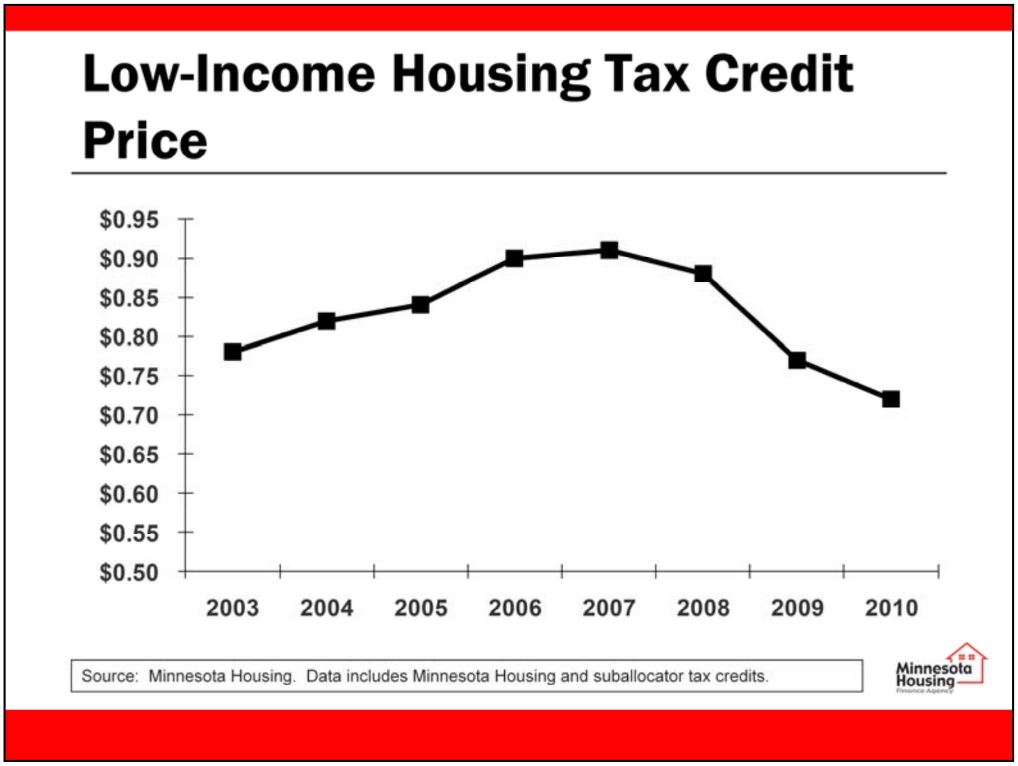
Discussion Item #2b: Need versus Resources (continued)

Declining Resources – Housing Tax Credits are Not as Valuable as They Once Were

Minnesota Housing Finance Agency

Moving onto another key financing tool – Housing Tax Credits.

The story is similar to the one faced by mortgage revenue bonds. The market is recovering slowly.



With the struggling economy, traditional corporate purchasers of tax credits have limited tax liabilities and less interest in the credits. In addition, with the housing crisis, investors are more cautious about investing in housing.

Reading the Graph

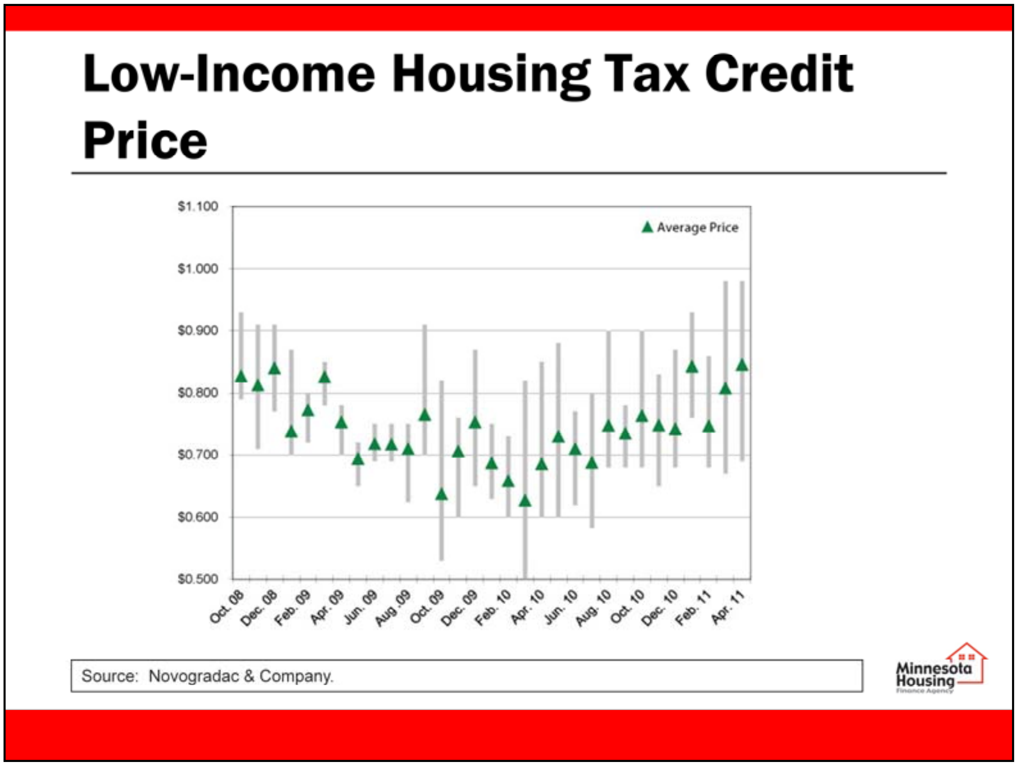
- This graph show's the average tax credit price for Minnesota projects over the last eight years.

Key Points

- The average price rose from 78 cents to 91 cents but fell to 72 cents.
- However, as the next slide will show, the price of tax credits started to improve in part way through 2010 and into 2011..

Implications

- Without a strong recovery in the tax credit market, Minnesota Housing will have difficultly generating funding for affordable rental housing.
- An annual $11 million allocation of tax credits would generate $79 million in syndication proceeds with a $0.72 price, while it would generate $100 million with a $0.91 price. (Tax credits are collected over ten years. Thus, an $11 million tax credit allocation has the potential to produce $110 million in tax benefits over the ten years. Depending on the market, these tax benefits sell for between 50 and 98 cents on the dollar.)



As mentioned, tax credit prices started to recover in early 2010.

Reading the Graph

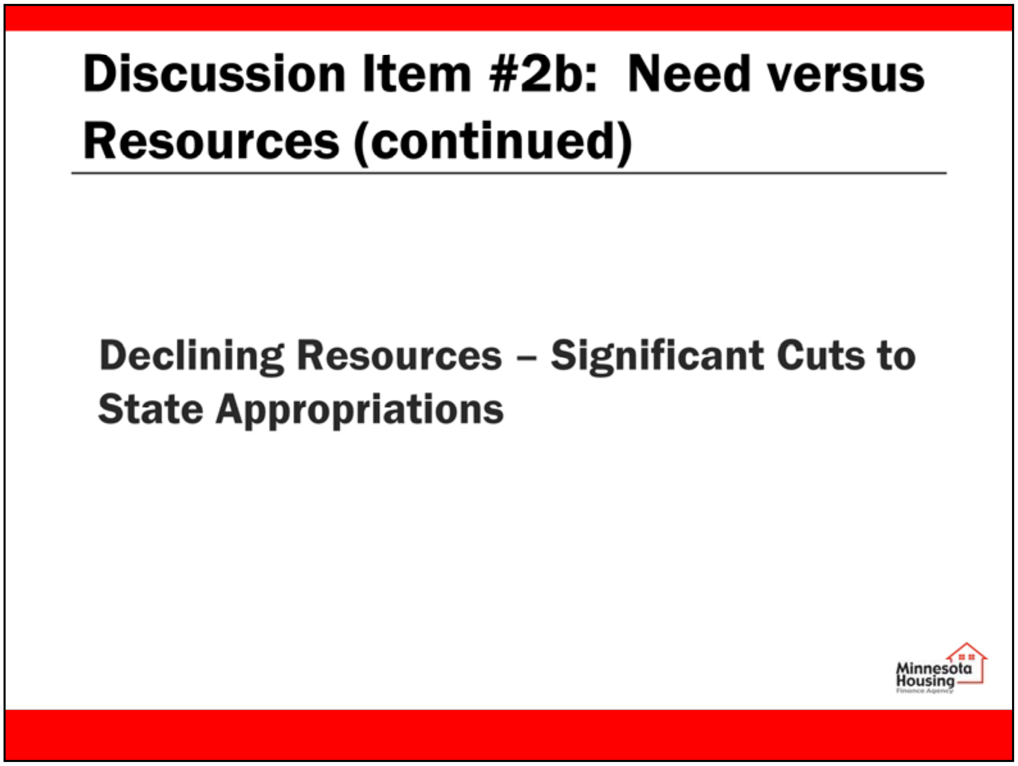
- This graph shows tax credit prices nationally.
- The green triagles are the average prices.
- The gray bars show the range of prices.

Key Points

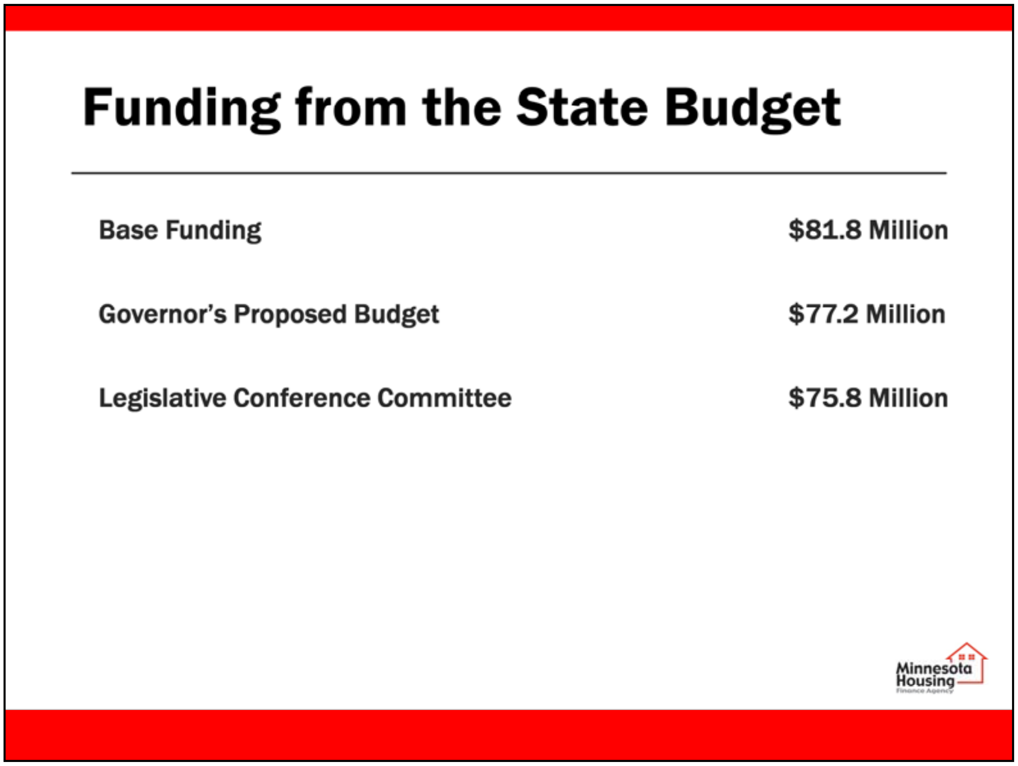
- Average prices bottomed out in March 2010 at a little more than 60 cents.
- By April 20011, average price had risen to the mid 80 cent range.

Implications

- If prices continue to rise, more funds will be available for affordable housing.



During the next biennium, Minnesota Housing is also likely to see a sizable reduction in its state appropriation.



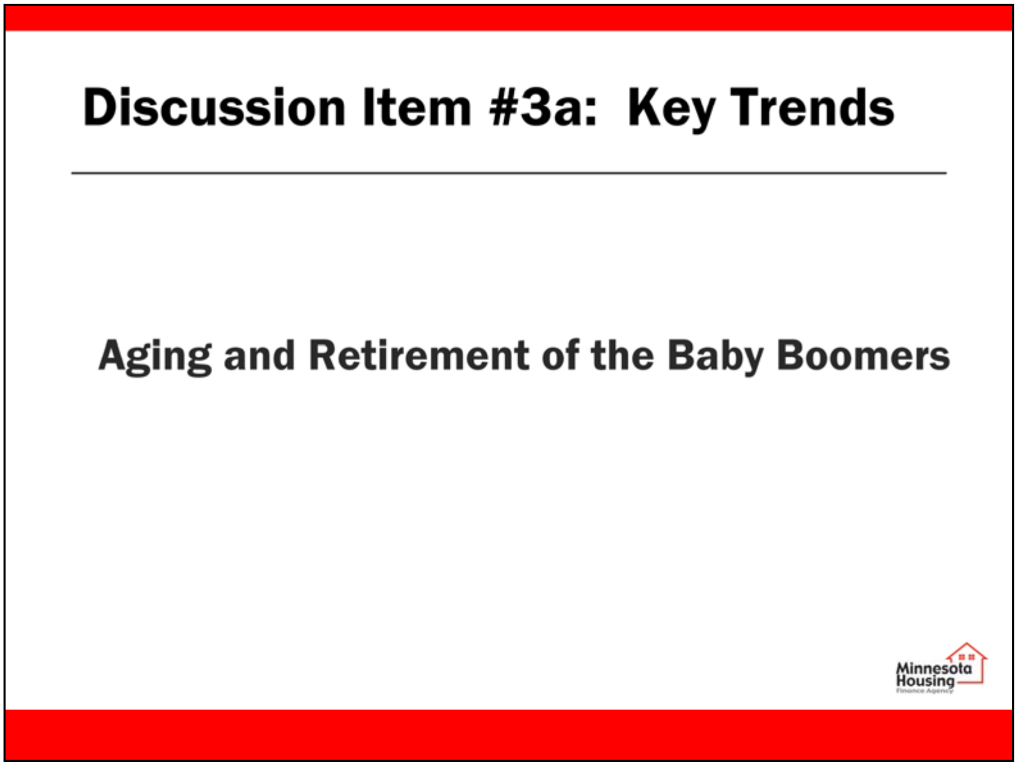
Key Points:

- The agency's base funding from the state is $81.9 million.

- The agency will likely face a 5.6% to 6.7% cut in its state funding.

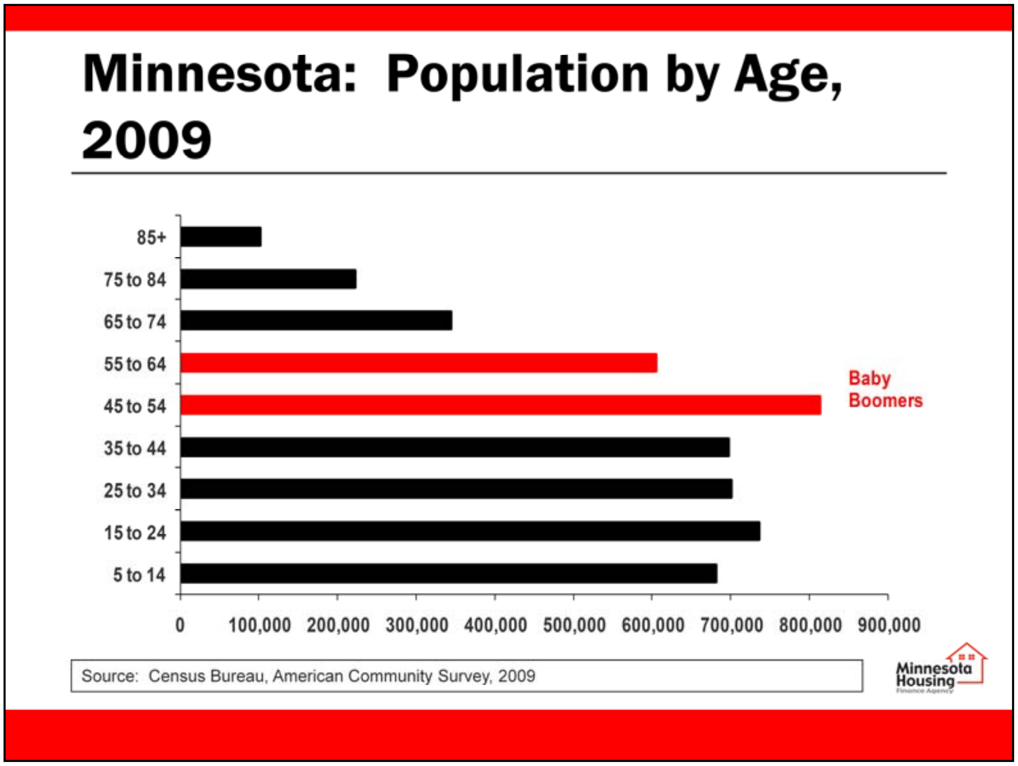
Implications:

- Even though state appropriation account for a relatively small portion of the agency's overall budget, these funds go to the deepest subsidies that support the neediest families.



Next, we'll turn to several key trends that are occurring nationally and Minnesota.

We'll start with the aging and retirement of the baby boomers.

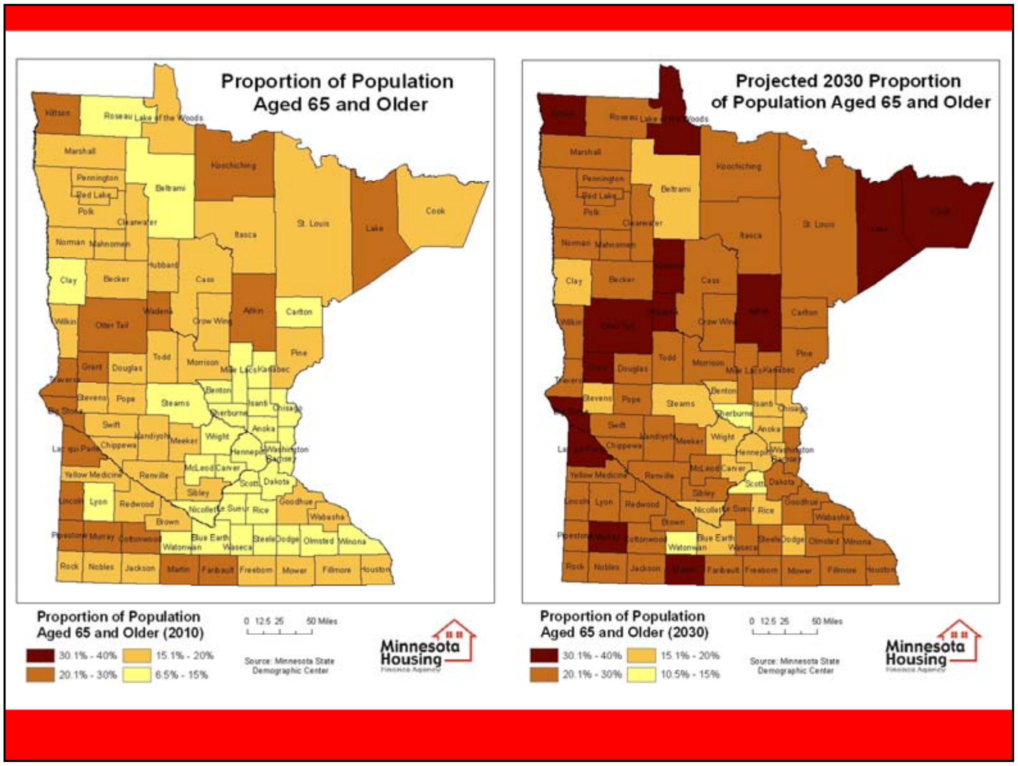


Reading the Graph

- This graph shows the number of people in various age groups for Minnesota in 2009.

Key Points

- The baby boomers (age 45 to 64) are the largest age group, particularly younger boomers – those 45 to 54.



Reading the Maps

- These maps show the percentage of the population in each county that is age 65 or over today (the left graph) and will be age 65 or over in 2030 (when the last baby boomers will be over 65).

Key Points

- Currently, the northern and western counties have particularly older populations, especially those near the borders.
- The state will become dramatically older over the next 20 years. Statewide the number of Minnesotans who are age 65 or over will double between now and 2030. In some counties, seniors will account for nearly 40 percent the county's population.
- Seniors will account for less than 15 percent of the population in only three counties.

This slide identifies some of the key trends and issues associated with baby boomers.

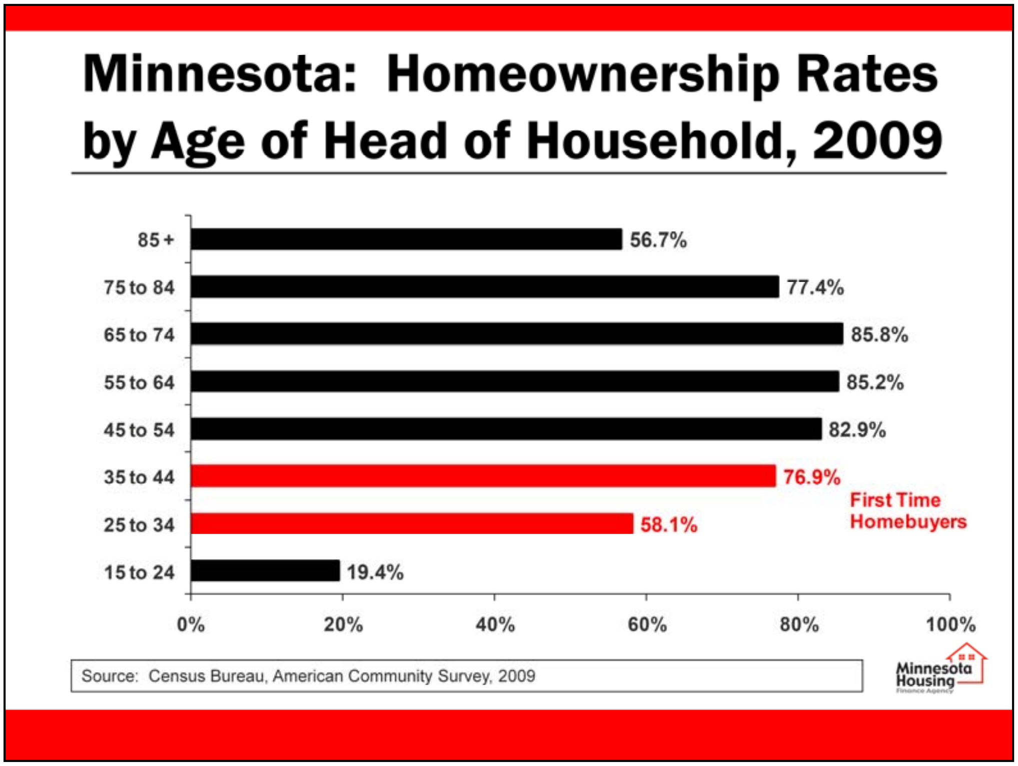
Key Points

- Ever since baby boomers have entered adulthood, they have driven the housing market, and they will continue to do so.
- Baby boomers do not necessarily want to retire the way their parents did. Only a small percentage indicate they want to live in assisted living or senior housing.
- They want to remain active and integrated in the overall community.
- The recent economic downturn has taken a toll on their retirement accounts and home equity. They have less financial means than they otherwise would have.

Implications

- To meet the needs of the retiring baby boomers, Minnesota Housing should consider financing senior-friendly housing with universal design features rather than senior (age-restricted) housing. Senior-friendly housing has features and amenities that not only allow seniors to stay in the community and live independently, but also appeal to other age groups and household types. For example, senior-friendly housing could include single-level living, the capacity to add “grab bars” in bathrooms, the installation of door levers rather than door knobs, etc. These types of homes would also be desirable to families with young children.
- Retrofitting existing affordable housing.
- Access to transportation, services, and amenities will be key.
- Minnesota Housing will study these issues and policy options over the next two years.

Along with the retirement of the baby boomers, we will see their children (the baby boom echo, generation Y, or millennials) becoming first time homeowners.



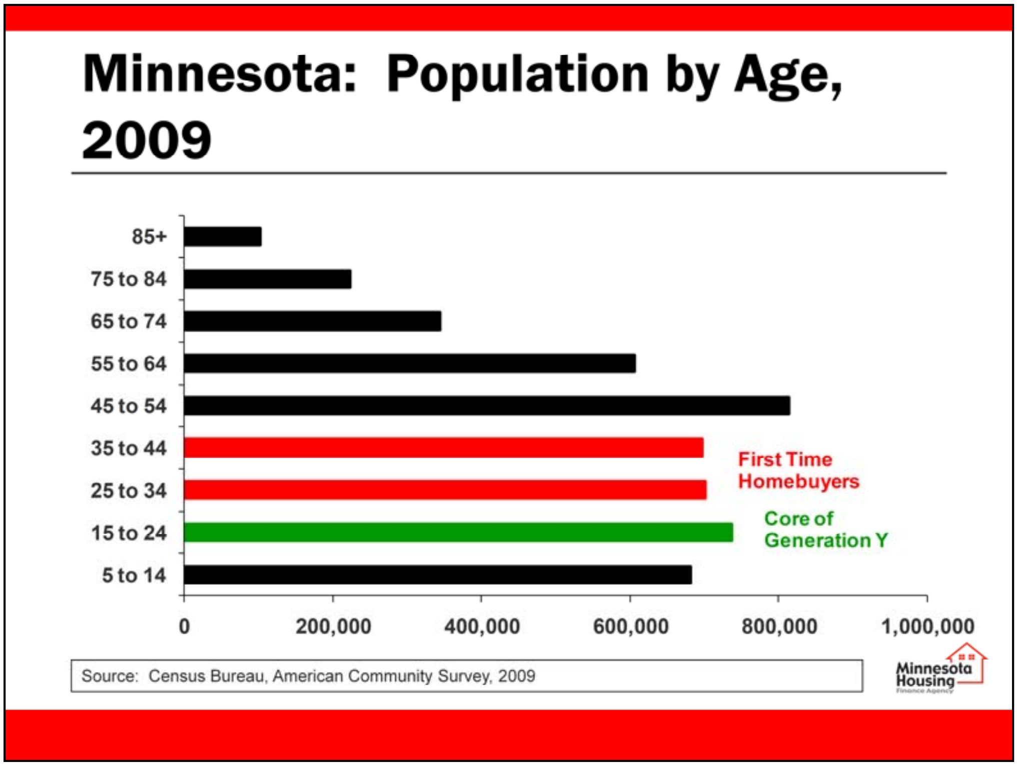
Generation Y is starting to become first-time homebuyers.

Reading the Graph

- This graph shows the homeownership rate for different age groups.

Key Points

- There is a significant increase in homeownership for people 25 to 34. The rate jumps from 19.4 to 58.1 percent.
- There is another significant increase, but smaller, for people 35 to 44. The rate jumps from 58.1 to 76.9 percent.
- People 25 to 44 are the primary first time homebuyers, especially those who are 25 to 34.



Reading the Graph

- This graph was shown earlier. It shows the number of people in various age groups in Minnesota in 2009. In this version of the graph, the first time homebuyer age group (25 to 44) and the core of generation Y (15 to 24) are highlighted.

Key Points

- The size of the first-time homebuyer age group is at a low point.
- These data are from 2009, when the leading edge of generation Y was 29 and just entering the first-time homebuyer age group. In 2009, the core of generation Y was 15 to 24. Generation Y will be our first-time homebuyers over the next decade or two.
- Generation Y is larger then generation X, which is the generation sandwiched between the baby boomers and their children.

Implications

- From a demographic perspective, the larger size of generation Y should boost the first-time homeowner market.

The First-Time Homebuyer Market in the Future

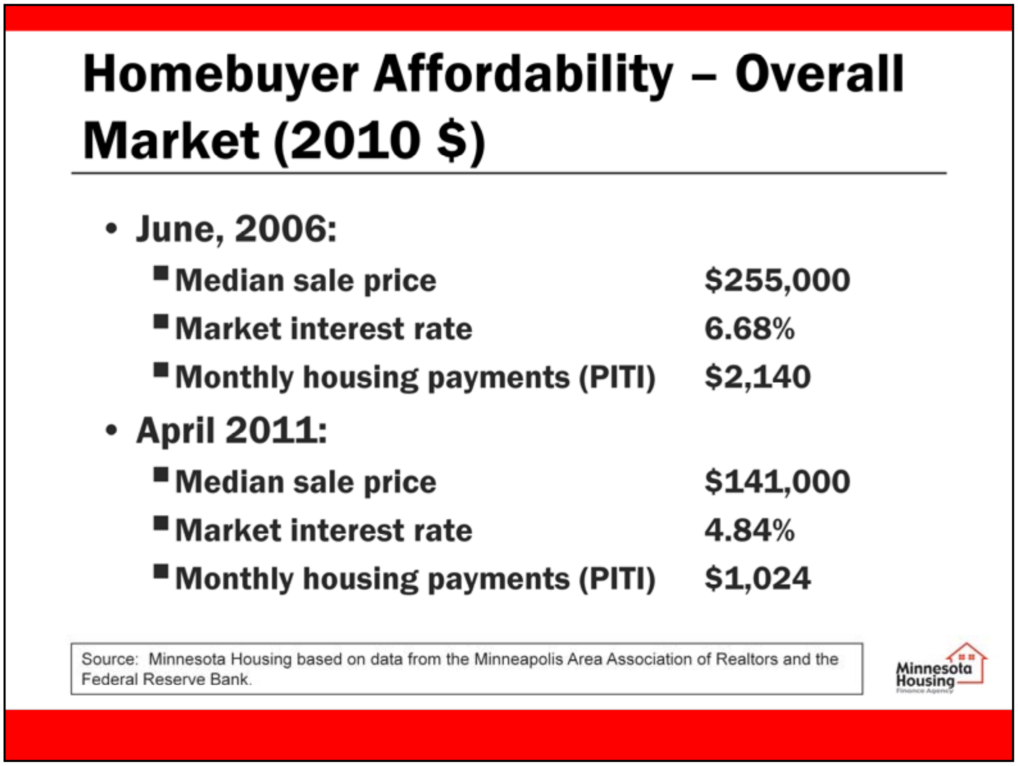
- **Positive Outlook:**
  - **Generation Y is a larger cohort than Gen X**
  - **Affordability has increased with price declines and low interest rates**

Minnesota Housing Finance Agency

Overall, some trends suggest a positive outlook for the first-time homebuyer market, while other trends suggest a more cautious outlook.

Starting with the positive side:

- As just discussed, generation Y is a larger cohort than generation X.
- In addition, with the recent declines in home sale prices and interest rates, homeownership is much more affordable than it was five years ago. The increased affordability could spur additional households to switch from renting to owning. The economy may need to stabilize before additional households make this switch.



As an example of the increased affordability – the monthly housing payment on a median priced home today is half the payment from five years ago.

They drop from $2,140 to $1,024.

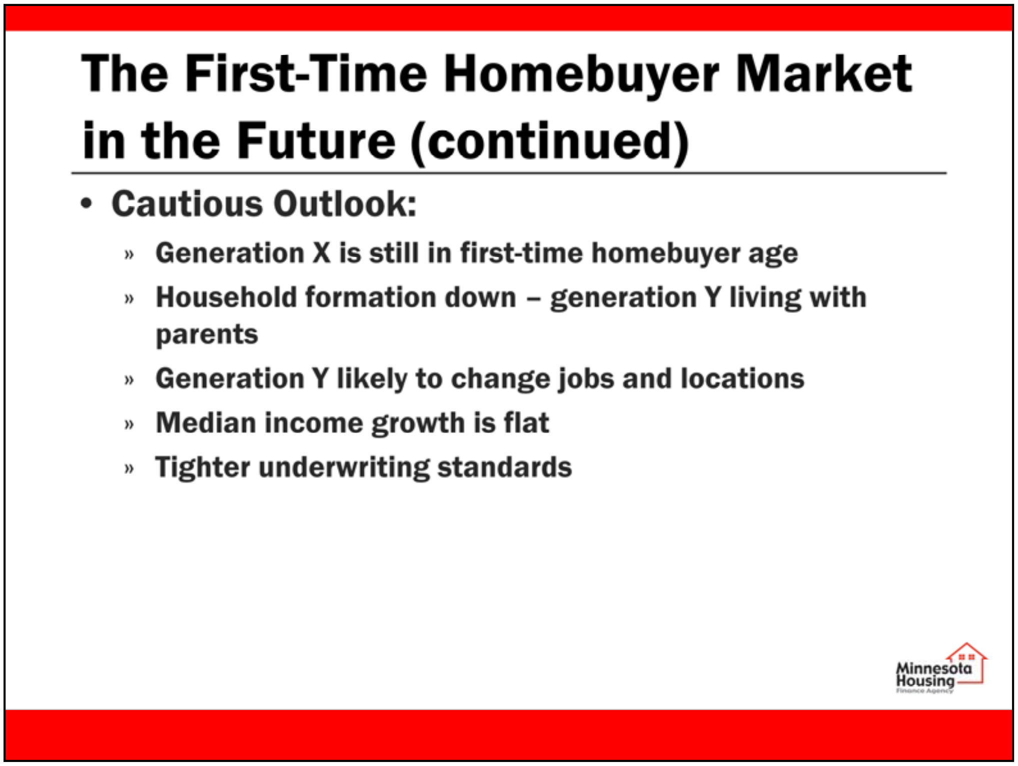
These figures are adjusted for inflation and apply to the overall market, including lender-mediated and short sales, which have brought down the median sales price/

Homebuyer Affordability – Traditional Market (2010 $)

- **June, 2006:**
  - **Median sale price** — **$256,000**
  - **Market interest rate** — **6.68%**
  - **Monthly housing payments (PITI)** — **$2,149**
- **April 2011:**
  - **Median sale price** — **$187,000**
  - **Market interest rate** — **4.84%**
  - **Monthly housing payments (PITI)** — **$1,359**

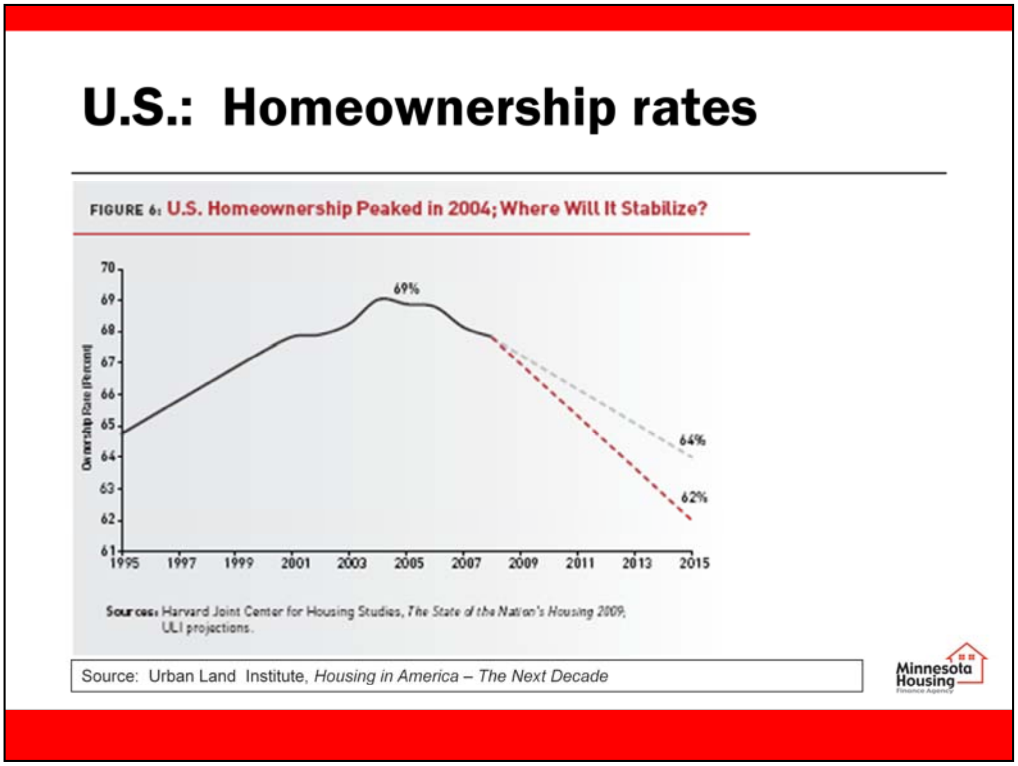
Source: Minnesota Housing analysis based on data from the Minneapolis Area Association of Realtors and the Federal Reserve Bank.

When lender-mediated and short sales are excluded and the data only capture traditional sales, the reduction in monthly housing payments is still dramatic – dropping from $2,149 to $1,359.



But there are reasons to be less optimistic about the future of the first-time homebuyer market:

- Generation X, which is a small age group, will still be in the first-time homebuyer cohort for several more years. As they move out of the first-time homebuyer cohort, they'll be replaced by generation Y; but this transition will take several years.
- Household formation is down. Generation Y (sometimes referred to as the Peter Pan generation) has a tendency to continue living with their parents. This may change with a revived economy.
- Generation Y may be less inclined to become homeowners for a couple reasons. First, some economists expect annual home appreciation rates to be only 3 or 4 percent over the next decade, meaning that homeowners will need to stay in their homes for at least 10 years to have home value appreciation cover the transaction costs of buying and selling a home. Second, generation Y is expected to be quite mobile switching jobs and locations, which would make staying in one home for ten years unfeasible.
- Median income growth is expected to be flat. Even with modest housing price appreciation, homeownership may once again become unaffordable to many.
- Underwriting standards – credit scores, down payment requirements, debt payment to income ratios – have become stricter, which has limited some renters from becoming homeowners.



With the trends on the previous slide, some people expect the homeownership rate in the U.S. to drop significantly.

Reading the Graph

- This graph shows actual and expected homeownership rates over time, as developed by the Urban Land Institute

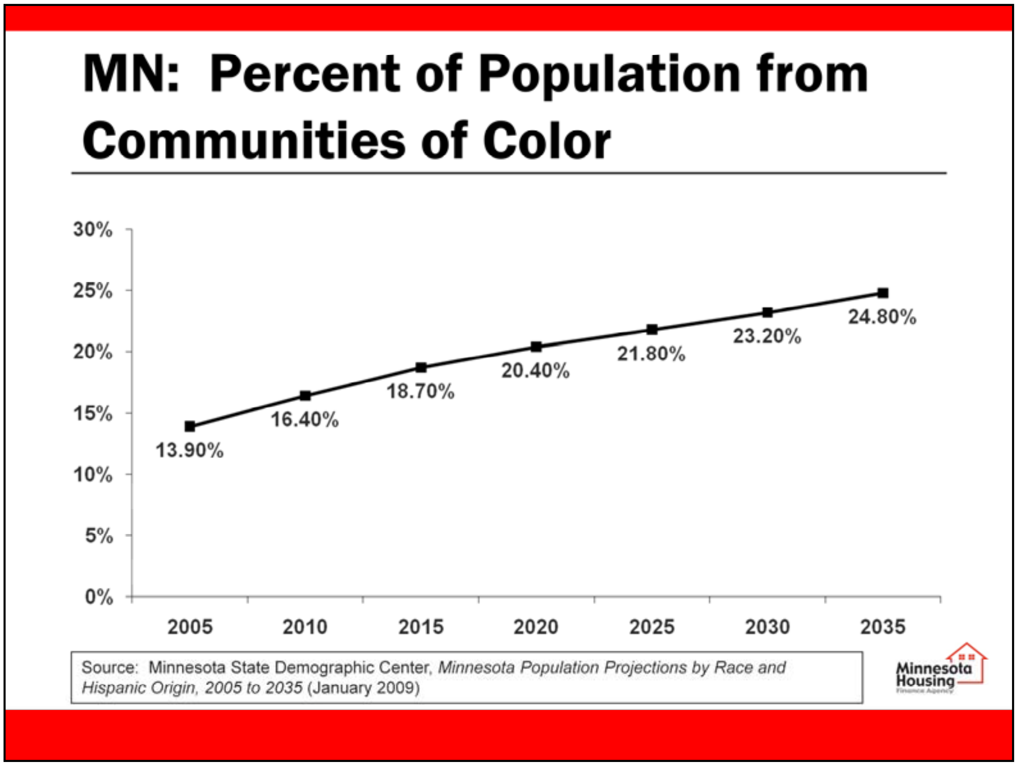
Key Points

- Some people expect U.S. homeownership rates to drop below 65 percent by 2015, which is a level not seen since 1995.

Implications

- Minnesota Housing needs to be cognizant of and track trends in homeownership, particularly first-time homeowners, because these trends and the factors driving them will affect demand for our primary revenue generator – single family mortgages for first-time homebuyers.
- A reduced homeownership rate may be appropriate from a societal perspective. Clearly some people got into homeownership over the last decade who should not have. Minnesota Housing wants to promote successful homeownership.

Minnesota is becoming increasingly diverse, which is another key demographic trend.

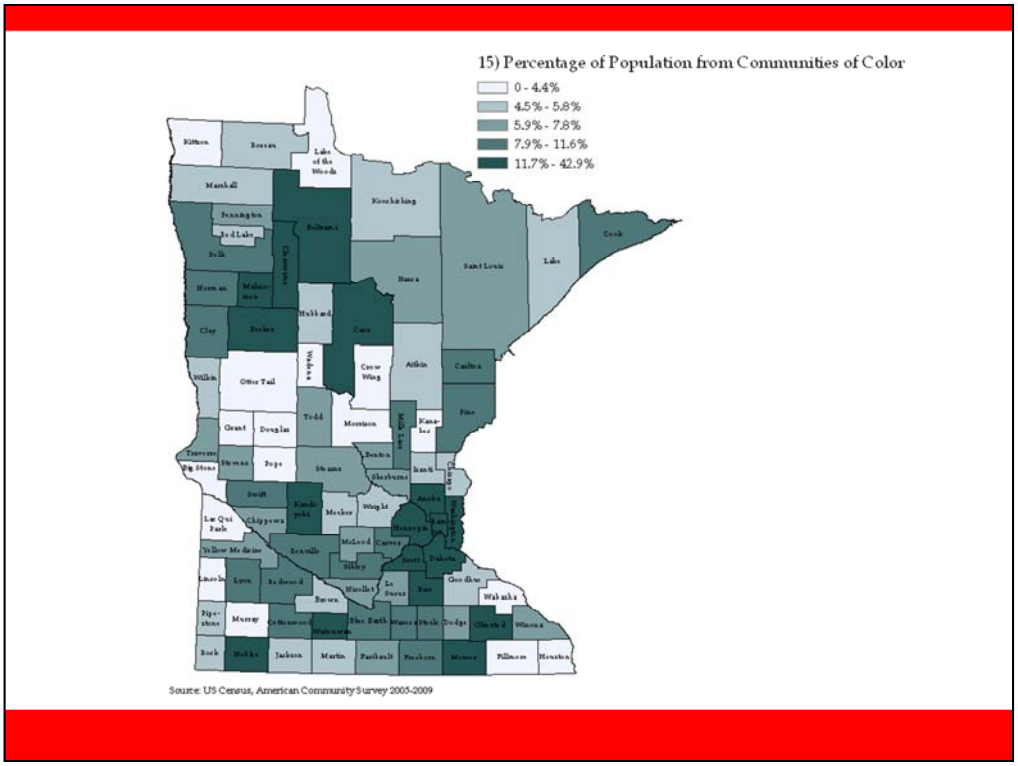


Reading the Graph

- This graph shows the percentage of the state's population that is expected to be from communities of color.

Key Points

- The percentage is expected to increase from 14 percent in 2005 to 25 percent in 2035.

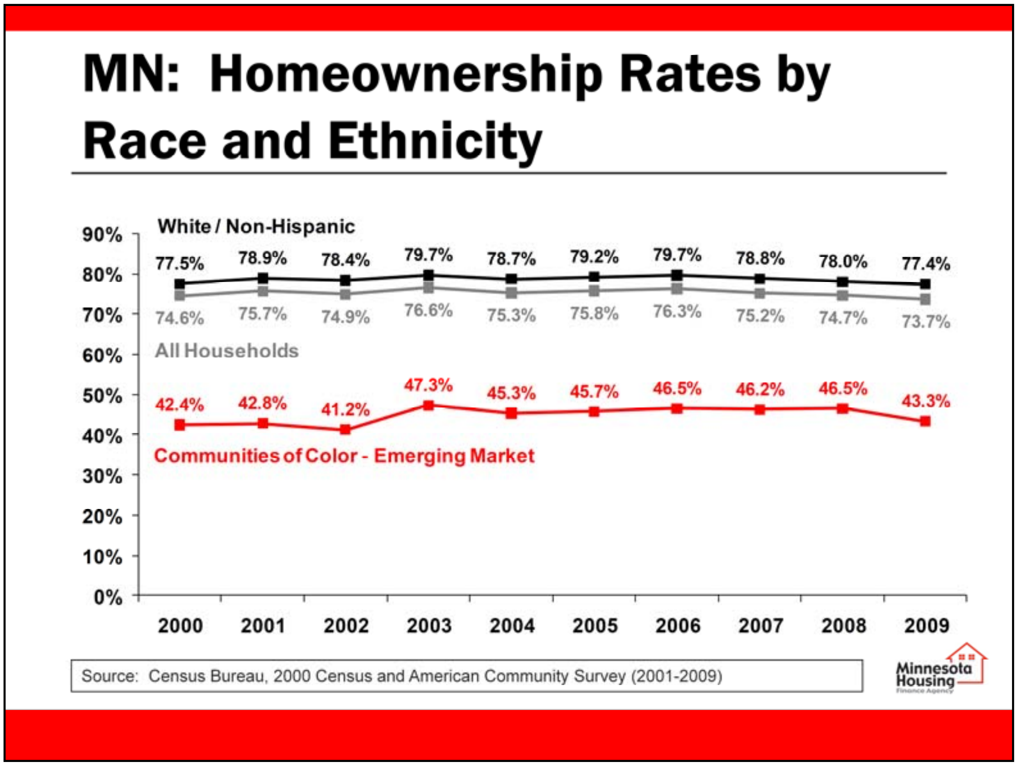


Reading the Map

- This maps shows the percentage of the population that is currently from communities of color by county.

Key Points

- Some counties are much more diverse than others.
- The county percentage ranges from 2 to 43 percent.



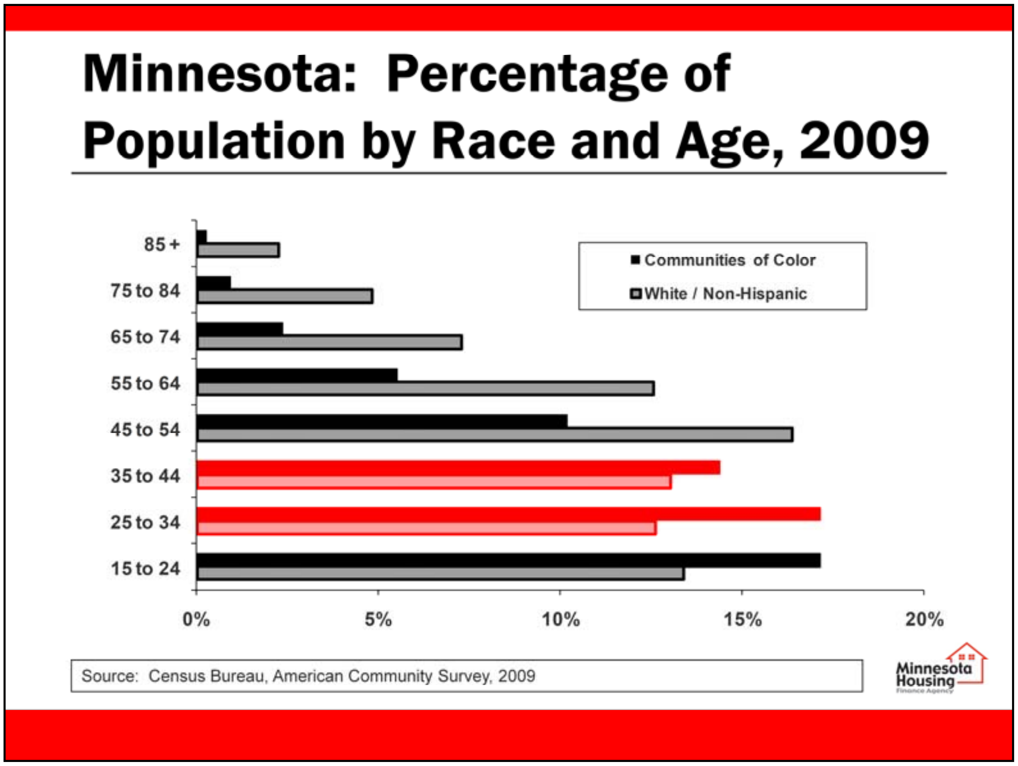
Most households of color are renters.

Reading the Graph

- This graph shows the state's homeownership rate over time, broken out by race and ethnicity.

Key Points

- While Minnesota has the highest homeownership rate in the county, we have the fifth largest gap between white/non-Hispanic households and households of color.



Even with an expected decline in homeownership, we have a clear opportunity to decrease the homeownership disparity between white/non-Hispanic households and households of color.

Reading the Graph

- This graph is similar to the earlier one that showed the state's population by age. However, this graph is broken out by race and ethnicity and shows the percentage of the population in each age group, rather than the actual number.
- The first-time homebuyer age group (25 to 34) is highlighted in red.
- Households of color are shown in the solid bars (black or red), and white/non-Hispanic households are shown in hatched bars.
- Looking at the 25 to 34 year olds, the graph shows that 17.2 percent of the communities of color population is in this age group (see the bottom red bar) and that only 12.6 percent of the white/non-Hispanic population is in this age group (see the bottom hatched red bar).

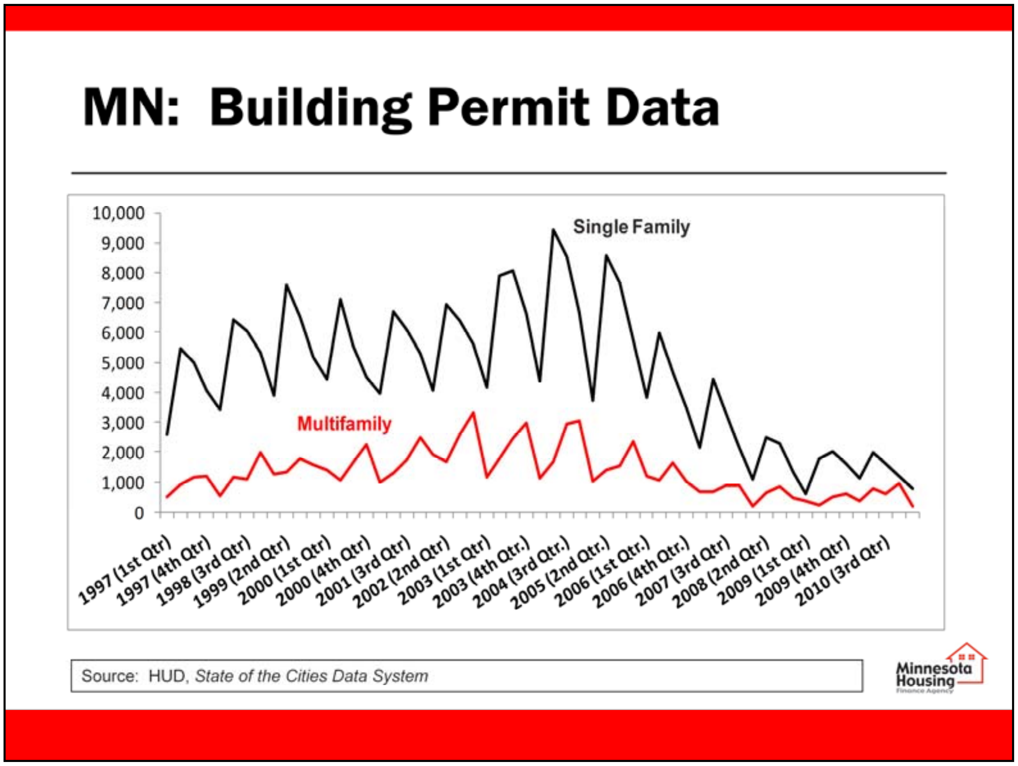
Key Points

- The age distribution for communities of color is very different than the one for white/non-Hispanic households. While the largest age group for white/non-Hispanic population is 45 to 54 (the younger half of the baby-boom generation), the largest age groups for people of color are 25 to 34 (the prime first-time homebuyer population) and 15 to 24 (the group entering their prime home buying age over the next decade).

Implications

- Regardless of policy priorities and from purely a demographic perspective, households of color are going to become a greater share of our market.

As the economy recovers, we'll likely see a recovery in rental construction.

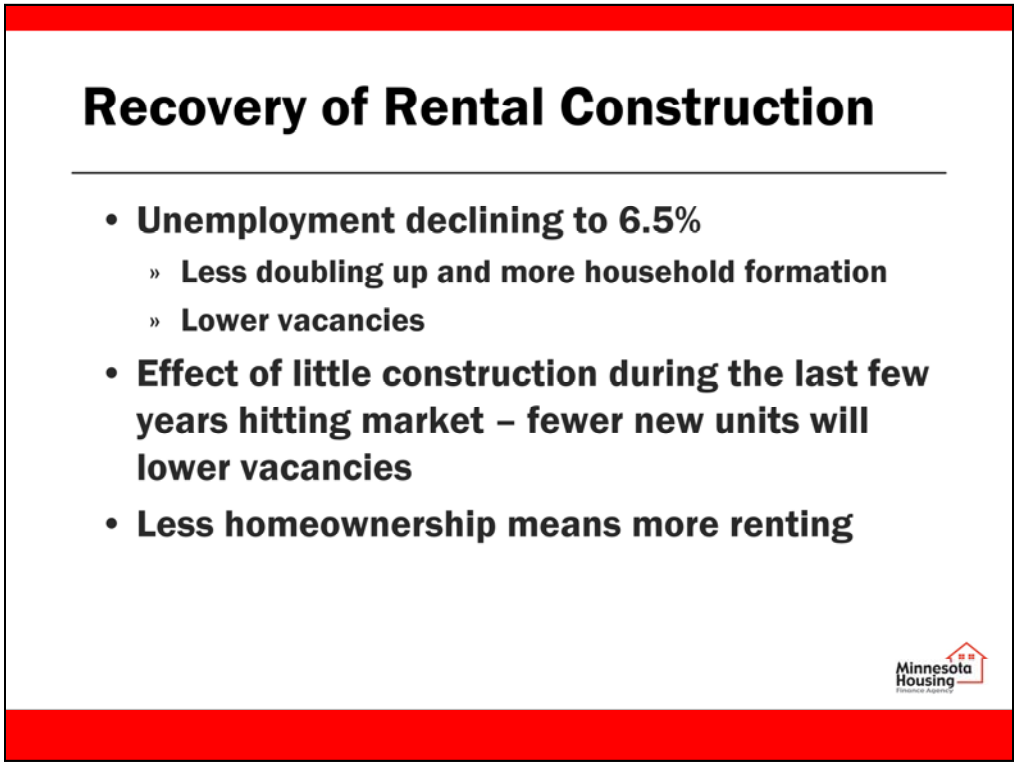


Reading the Graph

- This graph shows the number of building permits issued for single and multifamily construction over the last 13 years.

Key Points

- During the current economic downturn, there has been a dramatic decrease in the level of both single family and multifamily construction, as measured through building permits.
- For example, in the 4th quarter of 2005, permits for over 3,000 multifamily units issued, while in the 4th quarter of 2010, permits for roughly 950 multifamily units were issued.



We may see recovery in rental construction in the not too distant future.

Key Points

- With unemployment getting closer to 6 percent, we'll see less doubling up and lower vacancy rates, which is already occurring
- With very limited new construction over the last few years, very few new units are coming on the market, which will also lower vacancies.
- The reduction in homeownership discussed in previous slides means an increase in renting. Some of the increased renting may occur in single-family detached homes, but some will likely occur in multifamily housing.

Discussion Item #3e: Key Trends

Preservation: Maintain Existing Stock of Affordable Housing

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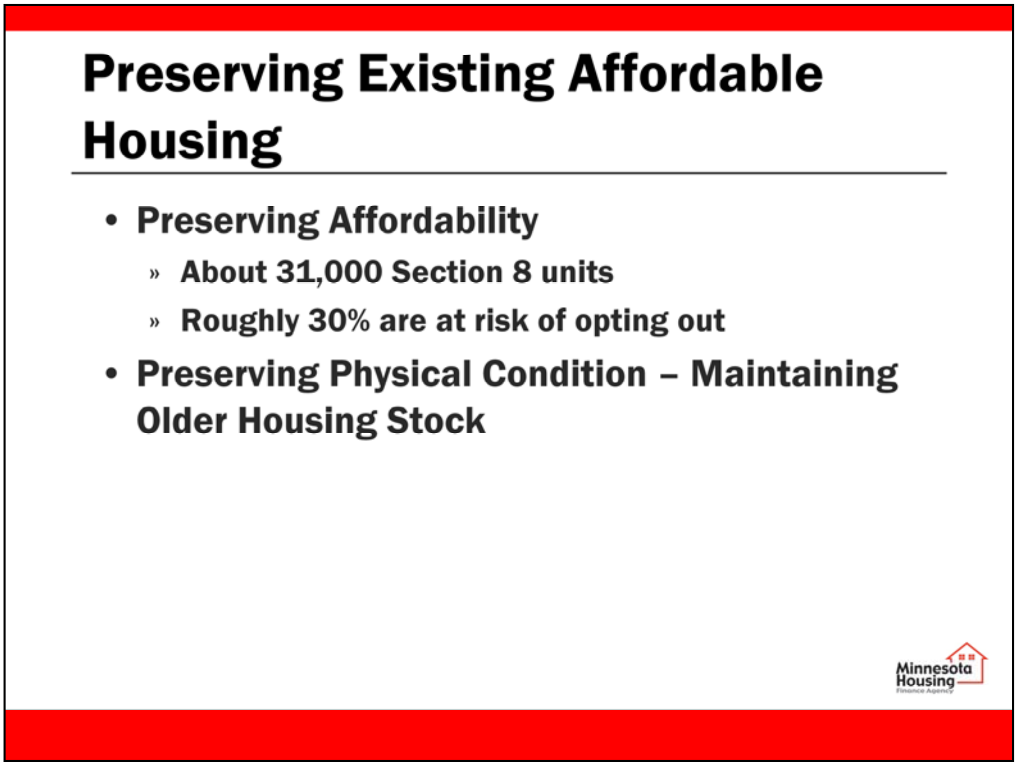
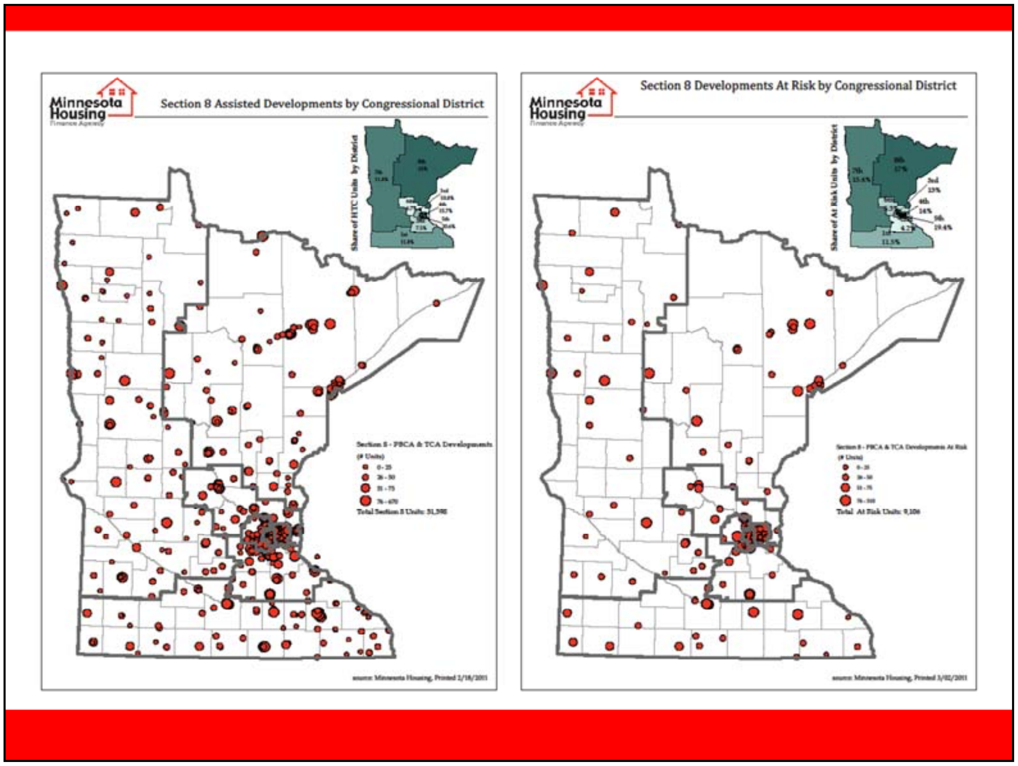
While new rental construction may become a growing demand, preservation will continue to be a key priority.



Key Points

- Based on a preliminary and rough assessment, Minnesota housing staff estimate that approximately 30% of the state's 31,000 Section 8 units are at risk of opting out of the program in the next five years.

- The state also has an aging housing stock. Owners need to maintain the physical condition of this stock. Working with owners to find solutions will be an important agency priority.

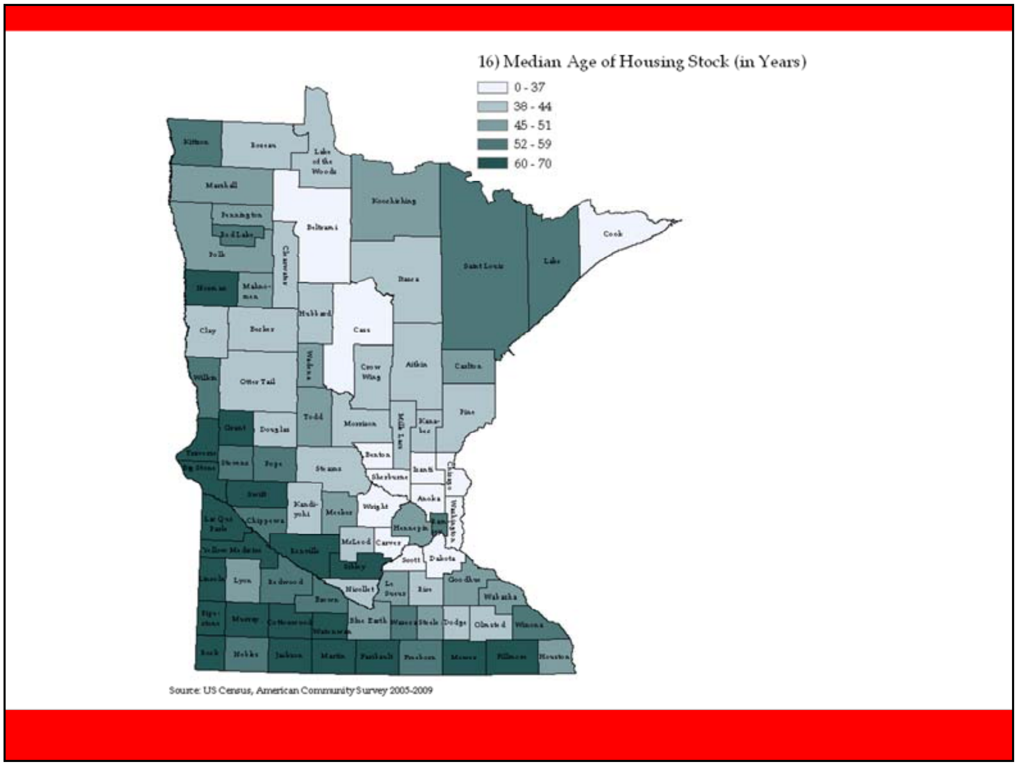


Reading the Graph

- The left map shows all the Section 8 properties in the state.
- The right map shows the at-risk properties.

Key Points

- The at-risk properties and units are located throughout the state.



Reading the Map

- This maps shows the median age of the housing stock in each county.

Key Points:

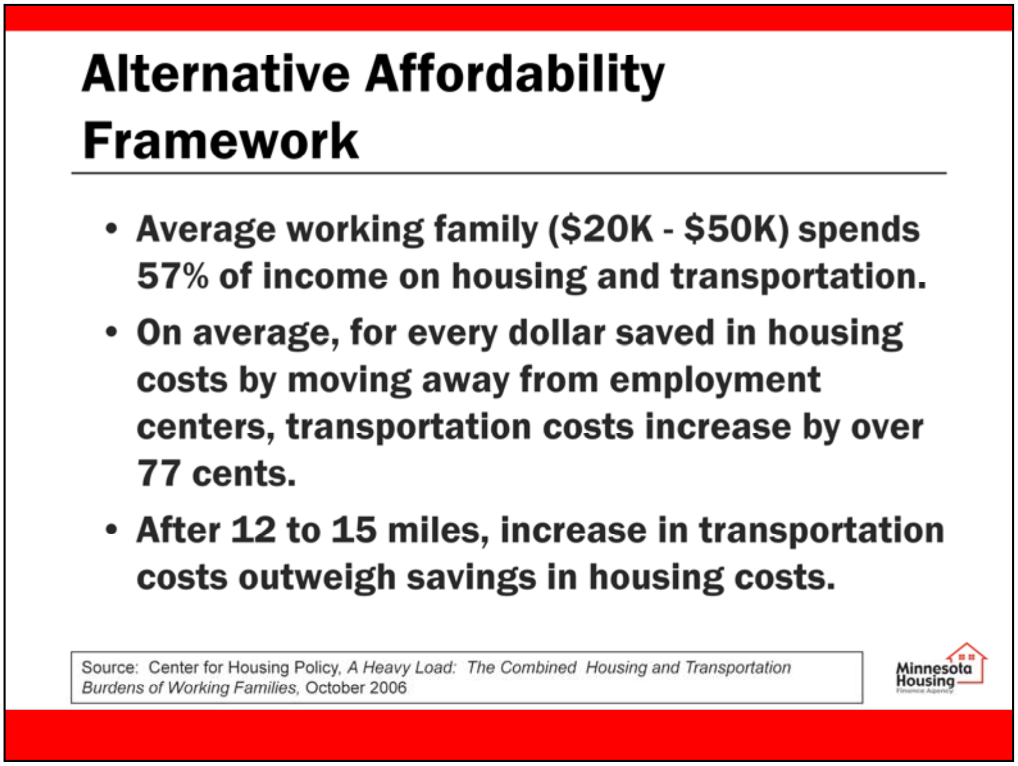
- The housing stock has a median age of more than 60 years in several parts of the state, particularly the southwest.

Discussion Item #3f: Key Trends

Housing Plus Transportation Costs: Locating Housing Near Jobs and Transit

Another key trend is the recognition that we need to consider both housing and transportation costs when we think about affordability.

To reduce transportation costs, it is important to locate affordable housing near the places that lower-income workers are employed or near public transportation.



Key Points

- The average working family spends about 57 percent of their income on housing and transportation.
- Some families move away from employment centers to find more affordable housing. However, this often not cost effective.
- On average, for every dollar saved in housing costs by moving away from an employment center, transportation costs increase by over 77 cents.
- In fact, after 12 to 15 miles, increases in transportation costs typically outweigh savings in housing costs.

Implication

- To minimize overall cost burdens, Minnesota Housing needs to locate affordable housing where lower-wage workers are employed or near public transportation.

Overall Conclusions

- Until the economy recovers and the foreclosure crisis subsides, our external environment will be remain unstable.
  - » Need to be flexible and respond quickly to changes
- We will have limited and shrinking resources to deal with a growing affordable housing problem.
  - » Need to be more strategic and targeted in our resource allocation.

Minnesota Housing Finance Agency

Overall Conclusions (continued)

- Baby boomers, generation Y, and communities of color will have a big impact on our operations.
  - Need to understand their housing needs and behaviors.
- Homeownership rates will likely decline, and the rental market is tightening.
  - Need to determine where resources can be best utilized to provide affordable choices.

Minnesota Housing Finance Agency

Overall Conclusions (continued)

- Preservation is critical.
  - Need to maintain existing affordable housing stock – not just rent subsidies but also physical conditions as affordable stock ages.
- Housing plus transportation costs
  - Need to locate housing near jobs or public transportation.
- Minnesota is not monolithic. Housing needs vary by region.
  - Need to account for regional differences when developing agency priorities and strategies.

For More Information Contact

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Minnesota Housing Finance Agency

AGENDA ITEM: 9.B.(3)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Indian Housing

CONTACT: Richard P. Smith, 218-846-0415
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REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ____________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
Since the mid-1970s, Minnesota Housing has had a unique, productive relationship with Indian bands and communities throughout Minnesota. This relationship has been built based upon Agency recognition of the government-to-government relationship between the state and Minnesota Indian tribes. This relationship has been recognized as a national model both by Indian tribes and state housing finance agencies throughout the country.

FISCAL IMPACT: None.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENT(S):
Background

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BACKGROUND:
Since the mid-1970s, Minnesota Housing has had a unique, productive relationship with Indian bands and communities throughout Minnesota. This relationship has been built based upon Agency recognition of the government-to-government relationship between the state and Minnesota Indian tribes. This relationship has been recognized as a national model both by Indian tribes and state housing finance agencies throughout the country. A number of programs have been operated pursuant to this relationship.

The "traditional" Tribal Indian Housing Program was established in 1975 in response to a study noting very poor housing conditions on Indian reservations throughout the state and the inability of private mortgage capital to be provided on Indian lands due to land title status. While a great deal of tribal land in Minnesota is fee simple, there is also a great deal of tribal land that is either tribal trust land or under individual allotment. The latter two have traditionally been difficult, if not impossible, for private lenders to mortgage. The Tribal Indian Housing Program is the only state program of its kind in the country. More than $55 million in state appropriations under this program has assisted more than 2700 tribal member to purchase or improve their homes.

In 1977, a significantly smaller second program, the Urban Indian Housing Program, was also authorized by the legislature, and funds were appropriated to support this program. This program was created to provide housing opportunities for Indian households living in Minneapolis, St. Paul, the Twin Cities suburbs, Duluth and Bemidji. A variety of efforts were funded through this program.

Following the successful capitalization of the Tribal Indian Housing Program and in light of availability of private mortgage loan products and the desire to meet the additional housing needs of tribes and their membership beyond those of single family homeownership the Agency proposed to the tribes that appropriated funds for the Tribal Indian Housing Program and the Urban Indian Housing Program be consolidated into the Economic Development and Housing Challenge Fund as a set-aside for Indian housing. This decision was supported by both the Agency and tribes. Single-family housing developments following implementation of this change has resulted in tribes accessing over $6.3 million of Challenge program funds creating or preserving some 244 individual housing units. Funding has been used in the form of affordability gap, value gap, renovation, preservation and new construction. On the multifamily side tribes have partnered with the Agency to complete 19 housing developments, with 444 units and an investment of over $60 million. Many of these developments have tax credit funding, preservation funds and homeless housing dollars complemented by Challenge program funds.

Federally recognized tribes within our state are eligible to apply for and may receive three main sources of funds which they can use for housing purposes:

- HUD-Office of Native American Programs, Native American Housing and Self Determination Act (NAHASDA) funds.
- Department of the Interior, Bureau of Indian Affairs (BIA) Roads funds.
- Department of Health and Human Services, Indian Health Service (IHS) funds.

Tribes have been very effective in providing these resources as well as other local tribal government funds as leverage to our funding when completing developments.

Recent successes in our partnership with tribes are most apparent in the field of the Homeless Housing Initiative. Tribes completed a "companion study" to the Wilder homeless survey four years ago. The results were staggering with American Indian homelessness negatively disproportionate percentage wise to the general population. The Agency along with the Department of Human Services, Corporation for Supportive Housing and most importantly the tribes themselves began an effort to address those needs.

Results so far are amazing with three developments completed and running, two under construction and two more in the process of final document closing. These projects will provide over 120 units of American Indian homeless housing all in just a short three years.

Today tribes continue to work with our state legislature, our Agency, our Congressional delegation and funding agencies to both leverage their funding and remove barriers to accessing funds for Indian housing. As far as they have come, there remains staggering needs both on reservations and for tribal members off reservation, in the urban areas of our state. Most recently the three largest tribes, Red Lake, White Earth and Leech Lake have reported waiting list for supportive or public housing exceeding 400 families each. Demand for housing continues to grow because of the poor economic conditions and unemployment rates as high as 40% not uncommon on reservations in our state. Tribes report that effects of the country's overall economic problems have caused a migration back to the reservations from urban areas of the state as constituents lose jobs and or housing, placing that much more demand on the tribes to provide these most basic of family needs.

The Agency remains committed to working with tribal housing officials to provide opportunities for alternate resources on reservation lands.

Minnesota Housing Finance Agency

AGENDA ITEM: 9.D.(1)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Family Homelessness Prevention and Assistance Program (FHPAP) Funding Approval

CONTACT: Ji-Young Choi, 651-296-9839
Ji-Young.Choi@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Subject to Legislative approval, staff requests the adoption of the attached funding recommendation for $14,930,290 in FHPAP grants to be administered through the Family Homelessness Prevention and Assistance Program. This will allow MN Housing to contract with 1) 20 existing grantees (including 2 new counties) to provide support services and direct assistance to 82 counties, 2) Housing Link to develop a housing resource data system in metro and selected greater MN cities, and 3) Wilder to maintain Homeless Management Information System (HMIS) database from July 1, 2011 through June 30, 2013.

FISCAL IMPACT:
While the Family Homelessness Prevention and Assistance Program (FHPAP) budget has not yet been approved by the Legislature, the proposed budgets from the Governor, Senate and House maintain the program's current base level of funding. Since the Agency has no resources other than appropriations, all FHPAP contracts will not be generated until there is an appropriation for the FY2012-2013 biennium. The FHPAP funding is a State appropriated resource and does not have an adverse financial impact on the Agency's financial position.

MEETING AGENCY PRIORITIES:

☐ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENTS:
- Background
- Exhibit A - Funding Chart

The 1993 Minnesota Legislature established the Family Homelessness Prevention and Assistance Program (FHPAP) to assist families who are homeless or are at imminent risk of homelessness. The 1995 Minnesota Legislature expanded eligibility for the FHPAP to include single adults and youth. The legislation requires that providers identify outcome objectives to prevent homelessness, minimize periods of homelessness, and eliminate repeat episodes of homelessness. The FHPAP encourages and supports innovation at the county, region, or local level in improving or developing the comprehensive homeless response system. The FHPAP grantees provide specialized support services including case-management, and financial literacy training, as well as short-term cash assistance for housing needs, such as short-term rent assistance, security deposits, utility assistance, and transportation assistance related to housing stability.

In the current biennium (July 1, 2009, through June 30, 2011) with $14,930,290, more than 16,500 households, unduplicated, will be served by the FHPAP, statewide; this will total more than 31,000 individuals, including more than 16,000 children.

The Multifamily Division of Minnesota Housing Finance Agency (Agency) issues the FHPAP Request for Proposals (RFP) biennially. Contingent on the Governor's proposed budget, the Agency anticipates granting $14,930,290 in FHPAP funds for FY 2012-2013. The Agency released the RFP on February 7, 2011, and the application deadline was May 9, 2011. Twenty proposals were received in response to the contingent RFP, all from current grantees, but expanding coverage to 2 additional counties. The total amount in requests was $17,030,945. Six proposals were from the Twin Cities seven-county metropolitan area (all seven counties) and fourteen proposals were from greater Minnesota areas.

Staff proposes to maintain the current funding distribution of 55 percent of the funds allocated to the Twin Cities seven-county metropolitan area and 45 percent of the funds allocated to the balance of the state. Funds have been distributed on this basis since 1997; a close analysis of current needs based on extreme housing burden for renters, poverty rates, and unemployment rates revealed that a 55/45 split remains a fair distribution.

Various State Agency staff reviewed proposals, community need, current project performance, and met on May 24, 2011 to recommend applicants for selection and funding. Reviewers included representatives from: the Department of Human Services, Office of Economic Opportunity; the Department of Human Services, Community Living and Supports; the Department of Human Services, Alcohol and Drug Abuse Division, the Department of Education; Department of Correction, Department of Employment and Economic Development, Department of Veterans Affairs, and Minnesota Housing staff.

Applicants were scored and ranked using the following criteria:

- Need: (20 points), as related to: extreme housing burden rates, number of people in poverty, unemployment rates, and narrative description of current community conditions such as recent factory closings, number of clients turned away due to lack of available funding, etc.
- Planning: (20 points), as related to: planning including short- and long-term plans to address need, active involvement of the advisory committee, coordination and collaboration with area service providers, mainstream resources and related planning groups, and project design and planned outcomes.
- Project Design: (30 points), as related to: systems design, development and change, including evidence of a critical assessment of the homeless response system. Project design must demonstrate that all populations (families, single adults and youth) have access to assistance within the service area.
- Project Capacity: (30 points), as related to: performance history including meeting objectives, balanced spending over time; quality and timeliness of reports; and involvement, communication and representation of advisory committee; project design that demonstrates the ability to meet their targets; and a budget plan and proposed outcome goal that is reasonable and consistent with project design.

The review committee recommended that the proposals submitted by all 20 applicants be selected for funding for the FY 2012—2013 biennium. With the expansion of the two additional counties, 82 of Minnesota's 87 counties will have FHPAP coverage. We marketed the FHPAP RFP process as a 'competitive' funding process; therefore we allowed our knowledge and information from applications (i.e. project capacity, planning process, project design, and need) and program operation to reflect on funding decisions. As a result, we awarded increased funding for high scored applicants while awarded decreased funding for low scored applicants based on their current funding amount. Because some grants are being reduced and less is being spent on FHPAP Initiatives, $254,711 in bonus funding is being awarded to top ranking applicants and three applicants who expanded service areas. Applicants with service expansion were recommended to receive a bonus funding to cover newly added counties.

In addition, Chart 1 shows recommendations for the new initiative funding for Housing Link to develop a supportive housing resource database system for metro wide and selected greater MN cities. Tenant Education pilot has been a part of FHPAP initiatives for more than 10 years. During these years, we have developed and increased the capacity of tenant education programs (i.e. developing curriculum and producing educational video clips) in Minnesota and decided not to fund any more of this pilot project with initiative grant. We presented this decision on the Board meeting in June, 2009. Instead, we decide a new initiative with Housing Link knowing that there are great needs for housing resource data system in Minnesota especially metro area to provide more efficient & effective services. These services are consistent and complementary to the other services offered by the FHPAP.

Finally, in order to ensure the continued focus on housing stability outcomes by the FHPAP throughout Minnesota, a small portion of the FHPAP allocation is being recommended for Wilder Research's Homeless Management Information System (HMIS) database reporting services. This evaluation work will help strengthen the program by monitoring rates of households' returns to FHPAP providers, as well as households' returns to HMIS-covered emergency homeless shelters.

CHART 1: 2012 - 2013 BIENNIUM FUNDING RECOMMENDATIONS FOR THE FAMILY HOMELESSNESS PREVENTION AND ASSISTANCE PROGRAM				
Grantee	**Counties Covered**	**2008-2009 Funding**	**2010-2011 Funding**	**2012-2013 Recommended Funding**
Anoka County	Anoka	$550,000	$550,000	$550,000
Carver/Scott	Carver, Scott	$275,000	$275,000	$302,500
Dakota County	Dakota	$350,000	$310,000	$217,000
Hennepin County	Hennepin	$4,100,000	$4,100,000	$3,690,000
Ramsey County	Ramsey	$2,600,000	$2,600,000	$3,004,711
Washington County	Washington	$250,000	$270,000	$270,000
Subtotal of Metro		**$8,125,000**	**$8,105,000**	**$8,034,211**
% of Total		**55%**	**55%**	**55%**
Bi-County CAP	Beltrami , Cass	$400,000	$380,000	$380,000
Blue Earth/Region 9	Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca and Watonwan	$400,000	$420,000	$460,579
Heartland CAA	Kandiohi, McLeod, Meeker, & Renville	$360,000	$360,000	$360,000
Kootasca C. A.	Cook, Itasca , Koochiching, Lake	$450,000	$430,000	$417,000
Lakes & Pines C.A.C.	Aitkin,Carlton,Chisago,Isanti, Kanabec, MilleLacs, Pine	$700,000	$700,000	$630,000
Lakes & Prairies CAP	Clay, Wilkin	$420,000	$400,000	$440,000
Lutheran Social Services	Todd, Crow Wing, Morrison	$750,000	$750,000	$825,000
Mahube Community Council	Becker, Mahnomen, Hubbard, Otter Tail, & Wadena	$440,000	$540,000	$634,000
SE MN Housing Network	Dodge,Freeborn,Fillmore, Goodhue,Houston,Mower,Olmsted, Rice,Steele, Wabasha,& Winona	$700,000	$700,000	$714,000
St. Louis County	St. Louis	$750,000	$750,000	$675,000
Tri-Cap Action Programs	Benton, Sherburne, Stearns, & Wright	$375,000	$345,000	$310,500
Tri-Valley Opportunity Council	Polk, Marshall, Norman, Pennington, Red Lake, Clearwater, Kittson, Roseau, Lake of the Woods	$390,000	$370,000	$370,000
West Central Communities Action	Grant, Pope, Stevens, Traverse and Douglas Counties	$200,000	$200,000	$180,000
Western Communities Action	Lincoln, Lyon, Jackson, Cottonwood, Redwood, Pipestone, Murray, Rock, & Nobles	$200,000	$240,000	$280,000
Subtotal of Greater MN		**$6,535,000**	**$6,585,000**	**$6,676,079**
% of Total		**45%**	**45%**	**45%**
TOTAL METRO & GREATER MN		**$14,660,000**	**$14,690,000**	**$14,710,290**
ADDITIONAL				
Housing Link	Metro 7 Counties, Selected Greater MN Cities (i.e. St. Cloud, Duluth, Moorehead, & Rochester)			$100,000
LSS (Tenant Education)			$150,000	
Wilder Research, Statewide - HMIS Reporting for FHPAP			$90,290	$120,000
TOTAL ADDITIONAL			**$240,290**	**$220,000**
TOTAL FUNDING			**$14,930,290**	**$14,930,290**

AGENDA ITEM: 9.D.(2)
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Amendment to 2010-2011 Affordable Housing Plan, Ending Long Term Homelessness Initiative Fund (ELHIF)

CONTACT: Amy Long, (651) 296-0751
amy.long@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Adopt a motion to amend the 2010-2011 Affordable Housing Plan (AHP) to authorize the use of the Ending Long-Term Homelessness Initiative Fund (ELHIF) funds for rental subsidies for non-long term homeless households who qualify for assistance under the Housing Trust Fund (HTF) and/or Bridges Rental Assistance Programs, in the event that the 2011 Legislature does not approve a state budget by June 30, 2011; and adopt the attached Resolutions amending MHFA resolutions: MHFA 11-030 and MHFA 11-031.

During a time when state appropriated resources may not be available, the contingency plan to authorize the use of ELHIF to honor rental assistance contractual agreements will prevent homelessness and sustain program relationships with administrators and their participating landlords. Implementation of this plan relies on the court's determination that work at the Agency is critical and shall continue at some level. The contingency plan will become null and void upon approval of the state budget. A black-lined version of the relevant portion of Tab F, of the AHP, the Program Narrative, modifying the eligible use of ELHIF is attached as Exhibit A.

FISCAL IMPACT:
The ELHIF monies are budgeted in the current AHP. Expending these funds for non-long term homeless families and individuals during the current AHP period does not impact the overall budget. The unexpended funds would otherwise have been carried forward into the next budget cycle to finance the one year rental assistance grants, effective October 1, 2011.

MEETING AGENCY PRIORITIES:

☐ Provide New Opportunities for Affordable Housing

☐ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☐ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENTS:
- Background, Strategy & Financing Plan
- Exhibit A, "Revised" Tab F
- Resolutions

In April, the board authorized funding to support 3 months of HTF rental subsidies and 24 months of Bridges rental subsides, subject to legislative approval. At that time, approximately 83% of the total financing plan was based on 2012-2013 State appropriated resources; the remaining sources included uncommitted, recaptured or extended 10-11 state appropriated resources and ELHIF funding, available in the current AHP. In the event that the Legislature does not approve a state budget by June 30th, the contingency financing plan includes a combination of uncommitted and unexpended state and Agency resources which will support 2 months of rental subsidies for both the HTF and Bridges programs. Additional plans are being developed in the event that an unresolved state budget extends beyond August 31, 2011. The Agency may be able to identify alternative funding to pay for rental subsidies for the month of September, either through program repayments, recaptures, or the Department of Human Services.

State Budget Contingency Planning, Two Month Financing Plan

It is estimated that the monthly cost of rental assistance under the HTF is $928,000 and the monthly cost for Bridges is $244,000. Uncommitted ELHIF and HTF funds, that were going to be used to renew the RA grants effective 10/1/11, are available under the current AHP and will be used to fund the contingency plan as well as recent repayments and recaptures. In addition, in part because of the admission freeze, a portion of funds committed under the HTF and ELHIF program are expected to be unexpended by July 1, 2011 and available for the next fiscal year.

Approximately $2.3 million is needed to support 2,000 households for 2 months

- $1.2 million in uncommitted HTF and ELHIF
- $234,000 in HTF & Bridges recaptures
- $872,000 in committed but unexpended HTF, Bridges and ELHIF

<table>
<tr><th colspan="2">Ending Long-Term Homelessness Initiative Fund (ELHIF)

"Revised" Tab F</th></tr>
<tr><td>Program Description</td><td>The Ending Long-Term Homelessness Initiative Fund (ELHIF) is used for permanent supportive housing for persons experiencing long-term homelessness, and operates under the Housing Trust Fund (HTF) statute and program rules. If the 2011 Legislature does not approve a state budget by June 30, 2011, uncommitted ELHIF funds may be used to pay rental subsidies for non-long term homeless households qualifying for assistance under the HTF and/or Bridges Rental Assistance Programs. Please refer to the HTF or Bridges program for a more complete description.

In addition to the uses described under Housing Trust Fund, funds have been used for:

• Non-bondable development costs in general-obligation-bond-funded (GO) supportive housing projects.
• Homeless Management Information System (HMIS) to collect data for coordination of efforts under this initiative.</td></tr>
<tr><td>Strategic Priorities Supported</td><td>End Long-Term Homelessness

Preserve Existing Affordable Housing</td></tr>
<tr><td>Program Performance and Trends</td><td>The Ending Long-Term Homelessness Business Plan had a goal of funding 2,400 housing opportunities by the end of 2008 for persons experiencing long-term homelessness. As of December 31, 2008, Minnesota Housing had created 808 new opportunities with a variety of resources, including ELHIF, bringing the cumulative total to 2,492 opportunities. The goals for the plan will be reevaluated in light of economic conditions, available supportive services funding and projected increases in homelessness; the goal may be adjusted, possibly extending implementation.

Minnesota Housing originally committed $50 million of its own resources to meeting this goal.

Over the course of the last AHP, 74 percent of funds committed under ELHIF have been for capital and 26 percent for rental or operating subsidies.</td></tr>
</table>

Proposal for 2010-2011	Based on resources available for new activity in 2010-2011, Minnesota Housing expects to assist approximately 700 households under this program. Of the new resources being committed to this program, $2,918,178 is from the original $50 million commitment. The remainder of the new resources represents additional allocations of Agency resources to this effort.		
Sources and Uses		**08-09 Plan**	**10-11 Plan**
	Sources		
	Carry Forward of Housing Affordability Fund	$ 21,790,871	$ 17,194,807
	New Housing Affordability Fund Allocation	18,000,000	7,500,000
	Total Sources	$ 39,790,871	$ 24,694,807
	Uses		
	Program Disbursements for Prior Plan Commitments	$ 21,790,871	$ 17,194,807
	New Program Activity for Current Plan	18,000,000	7,500,000
	Total Uses	$ 39,790,871	$ 24,694,807
Legal Authority	This fund will be operated under the Housing Trust Fund Rules. Minn. Stat. §462A.201; Minn. Rules, Parts 4900.3700-3769 <u>and the Bridges Rental Assistance Program Guidelines. Minn. Stat. §462A.2097; Minn. Rules, Parts 4900.3000-3050</u>		

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING GRANT AMENDMENT/COMMITMENT HOUSING TRUST FUND (HTF) AND ENDING LONG-TERM HOMELESSNESS INITIATIVE FUND (ELHIF) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications requesting extension of current grant terms to September 30, 2011 and additional funding to provide rental assistance for families who are low income, near homeless, homeless or long-term homeless.

WHEREAS, the Agency staff has reviewed the applications and determined that they are in compliance under the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

WHEREAS, the Board hereby authorized Agency staff to enter into grant agreements using State and Agency resources as set forth in Resolution No. MHFA 11-030.

NOW THEREFORE, BE IT RESOLVED:

THAT, in the event that the 2011 Legislature does not approve a state budget by June 30, 2011, the Board hereby authorizes Agency staff to enter into two month grant agreements, that may be extended for one additional month if resources are available, using a combination of uncommitted, unexpended, and/or recaptured ELHIF, HTF and Bridges resources, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

1. The amount will not exceed the amount approved in Resolution No. MHFA 11-030; and

2. Upon an approved state budget, the funding amounts and terms will revert to the terms outlined in Resolution No. MHFA 11-030, as allowable under terms and conditions of the state budget; and

3. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than six months from the adoption date of this Resolution; and

4. The sponsors and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, MN 55101

RESOLUTION NO. MHFA 11-

RESOLUTION APPROVING SELECTION/COMMITMENT BRIDGES AND BRIDGES ENDING LONG TERM HOMELESSNESS (ELHIF)

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide rental assistance for persons with mental illnesses and persons with mental illness who also have long histories of homelessness.

WHEREAS, the Agency staff has reviewed the applications and determined that they are in compliance under the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

WHEREAS, the Board hereby authorized Agency staff to enter into grant agreements using State and Agency resources as set forth in Resolution No. MHFA 11-031.

NOW THEREFORE, BE IT RESOLVED:

THAT, in the event that the 2011 Legislature does not approve a state budget by June 30, 2011, the Board hereby authorizes Agency staff to enter into two month grant agreements, that may be extended for one additional month if resources are available, using a combination of uncommitted, unexpended, and/or recaptured ELHIF, HTF and Bridges resources, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

5. The amount will not exceed amounts approved in Resolution No. MHFA-11-031; and

6. Upon an approved state budget, the funding amounts and terms will revert to the terms outlined in Resolution No. MHFA-11-031, as allowable under terms and conditions of the state budget; and

7. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than six months from the adoption date of this Resolution; and

8. The sponsors and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 23rd day of June, 2011.

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CHAIRMAN

AGENDA ITEM: 10.A.
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Fiscal 2012 Administrative Budget.

CONTACT: Patricia Hippe, 651-297-3125
patricia.hippe@state.mn.us

Bill Kapphahn, 651-215-5972
william.kapphahn@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency's administrative budget is prepared and presented to the Board each June as an information item. Presentation of the administrative budget is informational and no action by the Board is required.

FISCAL IMPACT:
The Agency's administrative budget is funded by earnings from loan programs and other investments, and from fees for service activities. The same revenue-generating activities also provide funding for programs, thus it is necessary for the agency to weigh administrative budget proposals against its desire to provide additional program funding. The fiscal 2012 administrative budget represents the funding necessary to support the level of program activity the Agency is committed to.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☑ Mitigate Foreclosure Impact Through Prevention and Remediation

☑ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENT(S):
- Background
- Administrative Budget FY 2012
- History of Budget vs. Actual
- Salary as a Percentage of Revenue FY 2002 – projected FY 2011
- Operating Expense as a Percent of Assets FY 2002 – projected FY 2011
- Average Adjusted Asset Balances by Fiscal Year

Staff has prepared the fiscal 2012 administrative budget for the operating expenses necessary to administer housing programs and initiatives and to meet work plan goals and objectives. The administrative budget does not include program expenditures such as loans, grants, and other housing assistance disbursements. Those expenditures are components of the Affordable Housing Plan which is a two-year budget approved by the Board in September of every odd-numbered year.

The fiscal 2012 administrative budget is $451,000 less than the fiscal 2011 budget but, if fully expended, will represent an increase of $2,592,000 compared to the projected actual expenditures for fiscal 2011. Primary drivers behind the increases from projected 2011 levels are: (1) hiring delayed for much of 2011 was completed toward the end of fiscal 2011, causing 2012 to reflect a full years' impact of those staffing decisions; (2) increased travel and general office expenses associated with additional staff, many of whom are new managers who will attend trainings and conferences; (3) several retirement payouts anticipated during 2011 will actually occur in 2012; (4) information technology investments are expected to be larger in 2012 resulting in higher costs for computer equipment and software acquisitions and for professional and technical contracts for contracted IT project work.

It should also be noted that while every effort is made to achieve a high degree of accuracy in forecasting expenditures through the end of fiscal 2011, actual expenditures may vary from forecast.

Minnesota Housing Finance Agency
Fiscal Year 2012 Administrative Budget

EXPENSE CATEGORY	2012 Budget	2011 Budget	2012 Change from 2011 Budget	2011 Forecast	2011 Budget (Savings) Overage
Salaries	$ 18,479,000	$ 18,589,000	(0.6)%	$ 17,525,000	(5.7)%
Space Rental	1,229,000	1,097,000	12.0 %	1,205,000	9.8 %
Printing/Advertising/Postage/Telephone	548,000	574,000	(4.5)%	419,000	(27.0)%
Travel	359,000	325,000	10.5 %	204,000	(37.2)%
Other Benefits	710,000	996,000	(28.7)%	410,000	(58.8)%
Repairs /Maintenance/Computer Systems Serrvices/Supplies/Equipment Rentals and Purchases	1,687,000	1,630,000	3.5 %	1,284,000	(21.2)%
Other Operating Expenses	252,000	169,000	49.1 %	329,000	94.7 %
Professional & Technical Contracts	1,848,000	2,129,000	(13.2)%	1,108,000	(48.0)%
State Indirect Costs	500,000	554,000	(9.7)%	536,000	(3.2)%
TOTALS	**$ 25,612,000**	**$ 26,063,000**	(1.7)%	**$ 23,020,000**	(11.7)%

MINNESOTA HOUSING FINANCE AGENCY
ADMINISTRATIVE BUDGET HISTORY
AND FORECAST TO FISCAL YEAR END 2011
(000's)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY* 2011	FY 2012
Budgeted	19,454	20,038	20,843	21,850	21,266	23,523	24,472	27,502	25,697	26,063	25,612
Actual**	18,222 [1]	19,089 [2]	20,186	20,124 [3]	21,266 [4]	22,832 [5]	24,001	25,178 [9]	24,447 [9]	23,020 [9]	N/A
Variance	1,232	949	657	1,726	0	691	471	2,324	1,250	3,043	N/A

Average annual actual administrative expense growth during the five year period from 2007-2011 is 1.73%

	FY 2007	FY 2008	FY 2009	FY 2010	FY* 2011
Expense actual change % year/year	7.36%	5.12%	4.90%	-2.90%	-5.84%
Expense actual change $$ year/year	1,566	1,169	1,177	(731)	(1,427)
Sustainable core net earnings before unrealized gain/loss***	42,167	33,494 [6]	7,308 [7]	6,923 [7]	13,000 [8]

Notes:

* For FY2011 the "actual" amount is MHFA's forecast estimate.

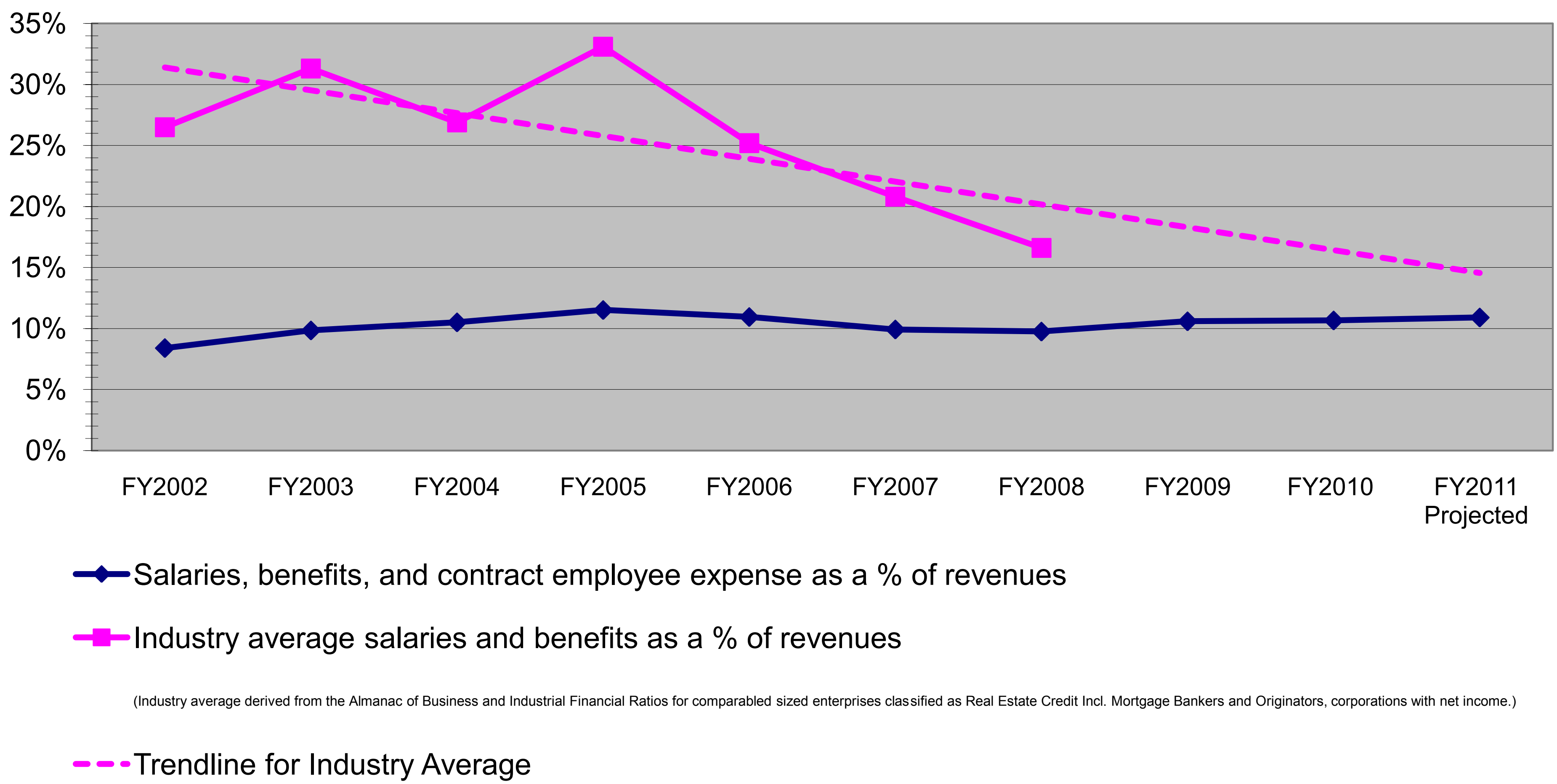
** Actual expense is gross amount not reduced by overhead recoveries

*** Pro forma for FY2007 which was before the funds restructuring.

[1] HUD-Contract Administration staff and infrastructure added
[2] Information Systems initiatives for Multifamily and Single Family HDS begin
[3] No 4d. monitoring
[4] Acquired second floor space
[5] Implemented Single Family HDS
[6] Funds restructure
[7] Incurred higher loan losses and lower investment earnings
[8] Incurred less loan losses
[9] Incurred lower than expected Information Systems contractor expense and salary savings due to turnover, retirements & hiring restrictions.

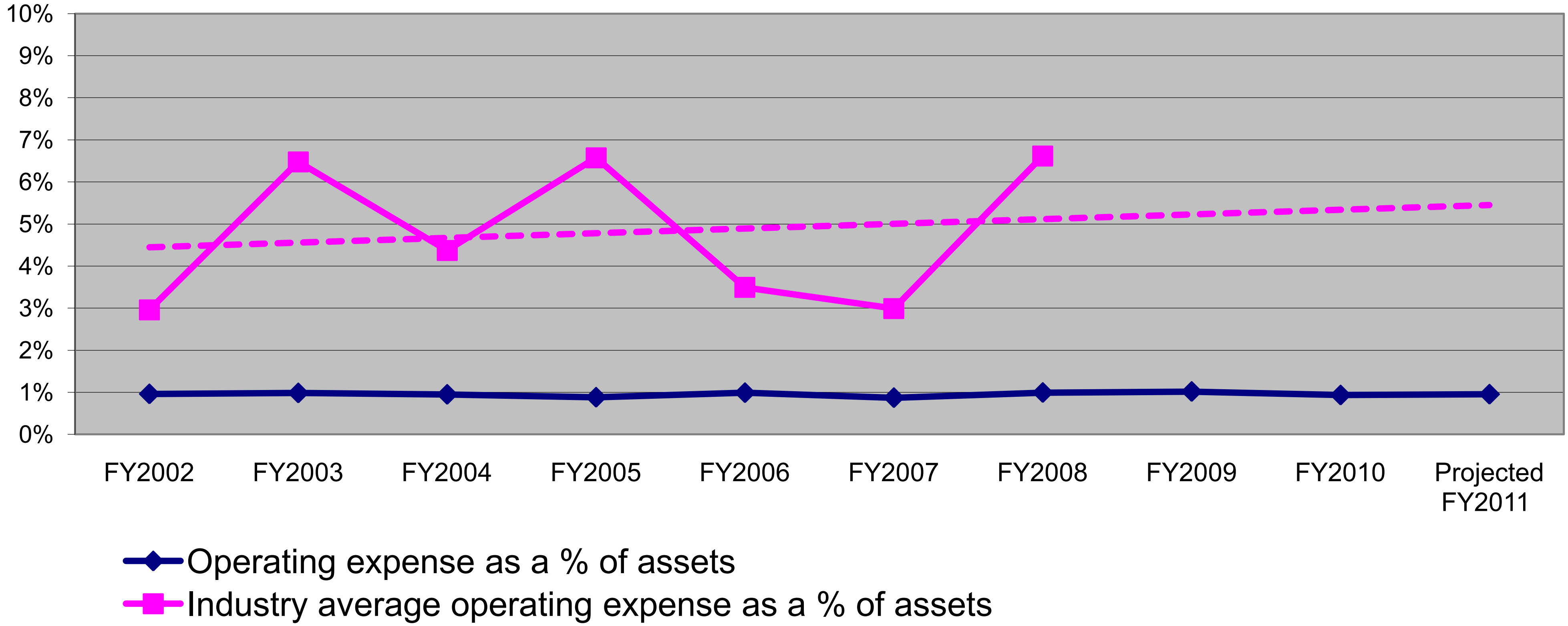
Salaries and Benefits as a % of Revenues

Industry Average compared to Sustainable Core



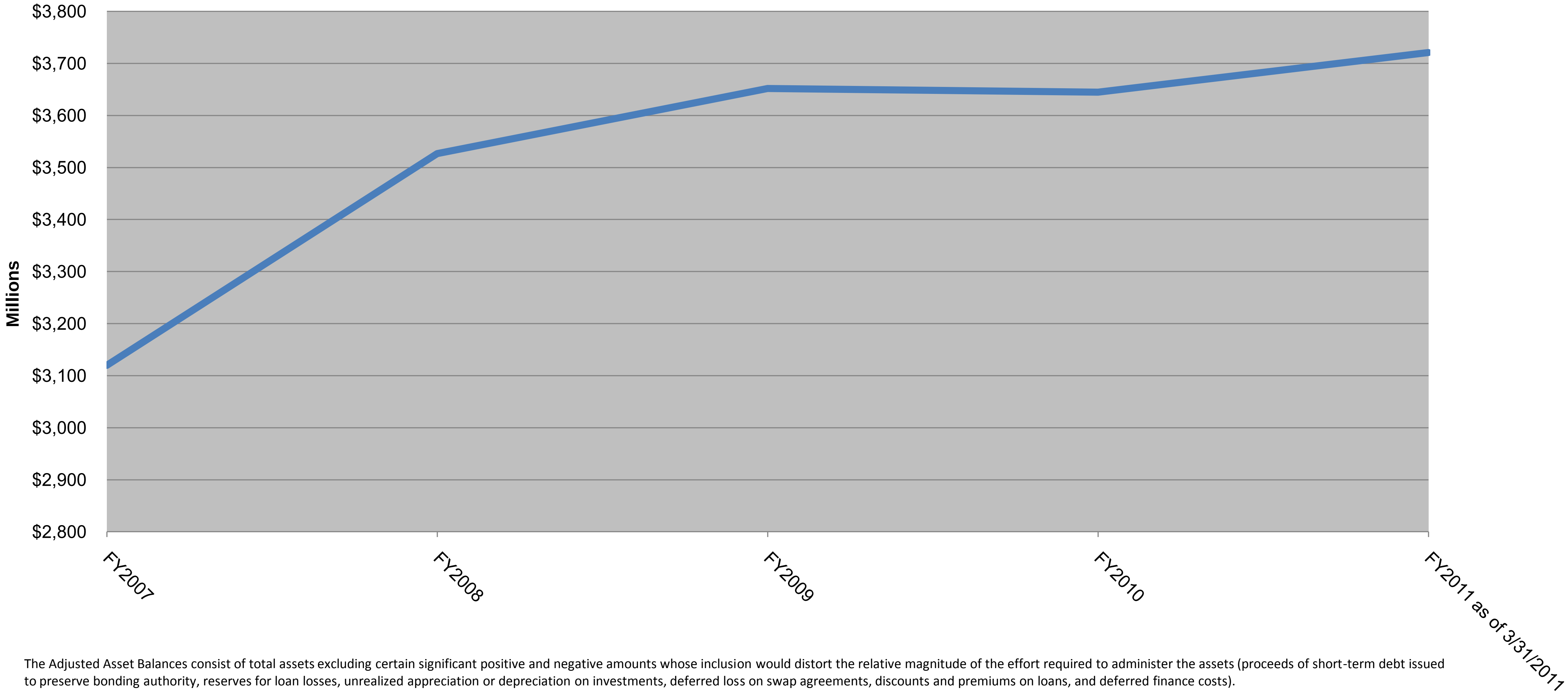
Operating Expense as a % of Assets

Industry Average compared to Sustainable Core



(Industry average derived from the Almanac of Business and Industrial Financial Ratios for comparabled sized enterprises classified as Real Estate Credit Incl. Mortgage Bankers and Originators, corporations with net income.)

Average Adjusted Asset Balances by Fiscal Year



The Adjusted Asset Balances consist of total assets excluding certain significant positive and negative amounts whose inclusion would distort the relative magnitude of the effort required to administer the assets (proceeds of short-term debt issued to preserve bonding authority, reserves for loan losses, unrealized appreciation or depreciation on investments, deferred loss on swap agreements, discounts and premiums on loans, and deferred finance costs).

Fiscal Year Ending	Adjusted Asset Balance
FY2007	$3,120,000,000
FY2008	$3,527,000,000
FY2009	$3,652,000,000
FY2010	$3,645,000,000
FY2011 as of 3/31/2011	$3,721,000,000

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AGENDA ITEM: 11.A
MINNESOTA HOUSING BOARD MEETING
June 23, 2011

ITEM: Request for Special Meeting

CONTACT: Mary Tingerthal, 651-296-5738
mary.tingerthal@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Special Meeting

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests the Board approve a special meeting on Monday, July 11th at 2:00 p.m. Staff will present information regarding the development of the 2012-2013 Affordable Housing Plan at this meeting.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Provide New Opportunities for Affordable Housing

☑ Mitigate Foreclosure Impact Through Prevention and Remediation

☑ Build our Organizational Capacity to Excel and Achieve our Vision

☑ Preserve Existing Affordable Housing ☑ Work to Prevent and End Homelessness

ATTACHMENT(S):
None